

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT PETITION OF NORTHERN INDIANA PUBLIC)
SERVICE COMPANY ("NIPSCO"), KOKOMO GAS AND FUEL)
COMPANY ("KOKOMO") AND NORTHERN INDIANA FUEL &)
LIGHT COMPANY, INC. ("NIFL") FOR APPROVAL OF (A))
THE TRANSFER TO NIPSCO OF THE FRANCHISE, WORKS)
AND SYSTEM OF KOKOMO AND NIFL INCLUDING THEIR)
ASSETS, DEBTS, LIABILITIES, OBLIGATIONS, AND)
CONTRACTS TO BE EFFECTUATED BY A STATUTORY)
MERGER IN WHICH NIPSCO WILL BE THE SURVIVING)
CORPORATION; (B) NIPSCO'S ASSUMPTION OF THE DEBT)
OBLIGATIONS OF KOKOMO AND NIFL PURSUANT TO)
SUCH MERGER; (C) THE POST-MERGER CAPITALIZATION)
OF NIPSCO; (D) THE RECORDING OF THE MERGER)
TRANSACTION ON THE BOOKS AND RECORDS OF NIPSCO;)
(E) THE TRANSFER TO NIPSCO OF THE INDETERMINATE)
PERMITS AND OTHER OPERATING RIGHTS OF KOKOMO)
AND NIFL (F) THE GRANTING TO NIPSCO OF LICENSES,)
PERMITS AND FRANCHISES FOR THE USE OF COUNTY)
ROADS AND RIGHTS-OF-WAY BY THE BOARDS OF)
COMMISSIONERS IN THE COUNTIES IN WHICH KOKOMO)
AND NIFL PROVIDE SERVICE; AND (G) THE ADOPTION BY)
NIPSCO OF THE RATE SCHEDULES AND RULES AND)
REGULATIONS OF KOKOMO AND NIFL FOR APPLICATION)
AFTER THE MERGER IN THE AREAS NOW SERVED BY)
KOKOMO AND NIFL WITH REVISIONS TO REFLECT THE)
MERGER AND STANDARDIZATION OF CERTAIN)
PROVISIONS.)

CAUSE NO. 43941

APPROVED:

PETITION OF KOKOMO GAS AND FUEL COMPANY)
("PETITIONER") FOR APPROVAL OF AND AUTHORITY)
FOR: (1) MODIFICATION TO ITS RATES AND CHARGES)
FOR GAS UTILITY SERVICE; (2) NEW SCHEDULES OF)
RATES AND CHARGES APPLICABLE THERETO; (3))
REVISIONS TO ITS DEPRECIATION ACCRUAL RATES; (4))
AN ALTERNATIVE REGULATORY PLAN ALLOWING)
PETITIONER TO IMPLEMENT AN ENERGY EFFICIENCY)
AND DEMAND SIDE MANAGEMENT PROGRAM; (5))
IMPLEMENTATION OF A NEW LOW-INCOME PROGRAM;)
(6) AN ALTERNATIVE REGULATORY PLAN ALLOWING)
PETITIONER TO IMPLEMENT A NEW CUSTOMER CHOICE)
PROGRAM AND CERTAIN RATEMAKING TREATMENTS)

CAUSE NO. 43942

APPROVED:

FOR REVENUES AND EXPENSES RELATING TO SERVICES)
AND PROGRAMS OFFERED PURSUANT TO PETITIONER'S)
NEW CUSTOMER CHOICE PROGRAM ALTERNATIVE)
REGULATORY PLAN; (7) TO THE EXTENT NECESSARY,)
GRANTING THE REQUESTED RELIEF AS AN ALTERNATIVE)
REGULATORY PLAN PURSUANT TO IND. CODE CHAPTER)
8-1-2.5; (8) MODIFICATION OF PETITIONER'S GAS COST)
ADJUSTMENT PROCESS TO INCLUDE UNACCOUNTED FOR)
GAS AND THE GAS COST COMPONENT OF BAD DEBT)
EXPENSE; AND (9) VARIOUS CHANGES TO ITS TARIFF FOR)
GAS SERVICE INCLUDING IMPLEMENTING A STRAIGHT-)
FIXED VARIABLE RATE DESIGN, REMOVAL OF GAS COSTS)
FROM BASE RATES AND CHANGES TO ITS GENERAL)
TERMS AND CONDITIONS FOR SERVICE)

PETITION OF NORTHERN INDIANA FUEL AND LIGHT)
COMPANY, INC. ("PETITIONER") FOR APPROVAL OF AND)
AUTHORITY FOR: (1) MODIFICATION TO ITS RATES AND)
CHARGES FOR GAS UTILITY SERVICE; (2) NEW)
SCHEDULES OF RATES AND CHARGES APPLICABLE)
THERETO; (3) REVISIONS TO ITS DEPRECIATION)
ACCRUAL RATES; (4) AN ALTERNATIVE REGULATORY)
PLAN ALLOWING PETITIONER TO IMPLEMENT AN)
ENERGY EFFICIENCY DEMAND SIDE MANAGEMENT)
PROGRAM; (5) IMPLEMENTATION OF A NEW LOW-)
INCOME PROGRAM; (6) AN ALTERNATIVE REGULATORY)
PLAN ALLOWING PETITIONER TO IMPLEMENT A NEW)
CUSTOMER CHOICE PROGRAM AND CERTAIN)
RATEMAKING TREATMENTS FOR REVENUES AND)
EXPENSES RELATING TO SERVICES AND PROGRAMS)
OFFERED PURSUANT TO PETITIONER'S NEW CUSTOMER)
CHOICE PROGRAM ALTERNATIVE REGULATORY PLAN;)
(7) TO THE EXTENT NECESSARY, GRANTING THE)
REQUESTED RELIEF AS AN ALTERNATIVE REGULATORY)
PLAN PURSUANT TO IND. CODE CHAPTER 8-1-2.5; (8))
MODIFICATION OF PETITIONER'S GAS COST)
ADJUSTMENT PROCESS TO INCLUDE UNACCOUNTED FOR)
GAS AND THE GAS COST COMPONENT OF BAD DEBT)
EXPENSE; AND (9) VARIOUS CHANGES TO ITS TARIFF FOR)
GAS SERVICE INCLUDING IMPLEMENTING A STRAIGHT-)
FIXED VARIABLE RATE DESIGN, REMOVAL OF GAS COSTS)
FROM BASE RATES AND CHANGES TO ITS GENERAL)
TERMS AND CONDITIONS FOR SERVICE)

CAUSE NO. 43943

APPROVED:

BY THE COMMISSION:

David E. Ziegner, Commissioner

Jeffery A. Earl, Administrative Law Judge

On September 1, 2010, Kokomo Gas and Fuel Company (“Kokomo”) filed a Verified Petition with the Commission under Cause No. 43942, seeking, among other things, a modification of Kokomo’s rates and charges for gas utility service. Kokomo also filed the testimony and exhibits constituting its Case-In-Chief on September 1, 2010. On September 23, 2010, Choice Marketer Group (“CMG”) filed a Petition to Intervene in Cause No. 43942, which the Presiding Administrative Law Judge granted on the record. After holding a Prehearing Conference on September 27, 2010, the Commission issued a Prehearing Conference Order on October 14, 2010, setting the procedural schedule for Cause No. 43942. On November 3, 2010, the Commission held a public Field Hearing in Kokomo, Indiana.

Also on September 1, 2010, Northern Indiana Fuel and Light Company Inc. (“NIFL”) filed a Verified Petition with the Commission under Cause No. 43943, seeking, among other things, a modification of NIFL’s rates and charges for gas utility service. NIFL also filed the testimony and exhibits constituting its Case-In-Chief on September 1, 2010. After holding a Prehearing Conference on September 27, 2010, the Commission issued a Prehearing Conference Order on October 14, 2010, setting the procedural schedule for Cause No. 43943. On September 23, 2010, CMG filed a Petition to Intervene in Cause No. 43943, which the Commission granted by Docket Entry on October 7, 2010. On November 9, 2010, the Commission held a public Field Hearing in Auburn, Indiana.

Concurrent with the filing of the Kokomo and NIFL rate cases, Northern Indiana Public Service Company (“NIPSCO”), Kokomo, and NIFL (collectively “Joint Petitioners” or the “Companies”) filed a Verified Joint Petition with the Commission under Cause No. 43941, seeking authority to merge Kokomo and NIFL into NIPSCO (the “Merger”). The Joint Petitioners also filed their supporting testimony and exhibits on September 1, 2010. The Kokomo rate case, the NIFL rate case, and the Merger are collectively referred to herein as the “Proceedings.” On October 13, 2010, the Commission held a Prehearing Conference in Cause No. 43941.

On December 16, 2010, NIPSCO, Kokomo, NIFL, the Indiana Office of the Utility Consumer Counselor (“OUCC”), and CMG (the “Parties”) jointly requested a modification of the procedural schedules in the Proceedings to provide an opportunity to negotiate a settlement covering the issues raised in the Proceedings. The Presiding Officers granted the Parties’ requested modification in a Docket Entry dated February 8, 2011. On February 14, 2011, Joint Petitioners filed a Notice of Agreement in Principle and Motion to Consolidate in each of the Proceedings.

On February 23, 2011, the Parties filed a Submission of Stipulation and Settlement Agreement (“Settlement”) in each of the three separate proceedings. On February 24, 2011, the Commission consolidated Cause Nos. 43941, 43942, and 43943. The Commission also set a procedural schedule for the receipt of testimony and evidence in support of the Settlement. A copy of the Settlement reached by the parties is attached hereto and

incorporated herein by reference. On March 4, 2011, Joint Petitioners and the OUCC prefiled settlement testimony and exhibits in support of the Settlement. Also on March 4, 2011, Joint Petitioners filed a Motion for Administrative Notice of a Depreciation Study filed by NIPSCO in Cause No. 43894 (the “Depreciation Study”).

Pursuant to notice given and published as required by law, proof of which was incorporated into the record of this Cause by reference and placed in the official files of the Commission, a public hearing was held on March 23, 2011, at 9:30 a.m. in Hearing Room 224, 101 W. Washington Street, Indianapolis, Indiana. Joint Petitioners, the OUCC, and the CMG participated in the hearing. No members of the general public appeared. Joint Petitioners and the OUCC offered their respective exhibits, which were admitted into the record. In addition, the Presiding Administrative Law Judge took Administrative Notice of the Depreciation Study.

Having considered the evidence and being duly advised, the Commission now finds:

1. **Notice and Jurisdiction.** Due, legal, and timely notice of the filing of the Petitions in the Proceedings was given and published by Joint Petitioners as required by law. Proper and timely notice was given by Kokomo and NIFL to their respective customers summarizing the nature and extent of the originally proposed change in their respective rates and charges for gas service. Due, legal, and timely notices of the public hearings in the Proceedings were given and published as required by law. Joint Petitioners are each a public utility as defined in Ind. Code § 8-1-2-1(a), a gas utility as defined in Ind. Code § 8-1-2-87(a)(4) and an energy utility as defined in Ind. Code § 8-1-2.5-2. Joint Petitioners are subject to the jurisdiction of this Commission in the manner and to the extent provided by Ind. Code ch. 8-1-2, Ind. Code ch. 8-1-2.5, and other laws of the State of Indiana.

2. **Kokomo’s Characteristics and Existing Rates.** Kokomo is authorized by the Commission to provide gas utility service to the public in all or part of Howard, Carroll, Cass, Clinton, Miami, and Tipton Counties in Indiana. Kokomo renders such gas utility service by means of utility plant, property, equipment, and related facilities owned, operated, managed, and controlled by it (collectively referred to as the “Gas Properties”), which are used and useful for the convenience of the public in the production, treatment, transmission, distribution, and sale of gas. On March 31, 2010, the conclusion of the test period in the Kokomo Rate Case, Kokomo provided natural gas service to 33,295 customers, comprised of 30,694 residential customers, 2,518 commercial customers, 35 industrial/transportation customers, and 48 public authority customers.

Kokomo’s existing basic rates and charges for gas utility service (“base rates”) were established pursuant to the Commission’s Order issued July 29, 1987, Supplemental Order Denying Public’s Petition for Reconsideration and Granting Petitioner’s Verified Petition for Rehearing issued October 7, 1987, Nunc Pro Tunc Order issued October 14, 1987, and Order Approving Settlement and Stipulation on Rehearing issued November 12, 1987, in Cause No. 38096.

3. **NIFL’s Characteristics and Existing Rates.** NIFL is authorized by the

Commission to provide gas utility service to the public in Allen, DeKalb, LaGrange, Noble, and Steuben Counties in northeast Indiana. NIFL renders such gas utility service by means of Gas Properties which are used and useful for the convenience of the public in the production, treatment, transmission, distribution, and sale of gas. On March 31, 2010, the conclusion of the test period in the NIFL Rate Case, NIFL provided natural gas service to 40,691 customers, comprised of 36,727 residential customers, 3,701 commercial customers and 263 industrial/transportation customers.

NIFL's base rates were established pursuant to the Commission's January 29, 1992 Order in Cause No. 39145.

4. NIPSCO's Characteristics. NIPSCO is a public utility corporation organized and existing under the laws of the State of Indiana and having its principal office at 801 E. 86th Avenue, Merrillville, Indiana 46410. NIPSCO is engaged in rendering gas and electric utility service in the State of Indiana and owns, operates, manages, and controls, among other things, plant and equipment within the State of Indiana used for the distribution and furnishing of such service to the public. As of June 30, 2010, NIPSCO provided gas utility service to 713,925 customers in all or part of 28 counties in northern Indiana and electric utility service to 455,938 customers in all or part of 20 counties in northern Indiana.

5. Kokomo's and NIFL's Requested Rate Case Relief. In their respective Petitions in Cause Nos. 43942 and 43943, Kokomo and NIFL each requested approval of a new schedule of rates and charges, and authority to streamline and standardize their respective rate schedules and General Rules and Regulations Applicable To Gas Service to bring them in line with the structure of those of NIPSCO. Kokomo and NIFL also sought approval for the recovery of unaccounted for gas ("UAFG") costs and the gas cost component of bad debt expense in their respective quarterly Gas Cost Adjustment ("GCA") filings. Both Kokomo and NIFL proposed tariff revisions to modernize their transportation service offerings and elected to make themselves subject to the provisions of Ind. Code ch. 8-1-2.5 for purposes of adopting efficiency and demand side management programs for residential customers, low income assistance programs, and the incorporation of the provisions of the NIPSCO Gas Alternative Regulatory Plan ("ARP") most recently approved by the Commission in Cause No. 43837 (Approved March 31, 2010). Both rate cases proposed a test year of the twelve (12) months ended March 31, 2010.

As discussed below, the Settlement contemplates the adoption of the Commission approved rates and charges for NIPSCO in the Kokomo and NIFL service territories rather than those proposed in the individual rate case filings in Cause Nos. 43942 and 43943. The relief requested by Kokomo and NIFL in the individual rate proceedings was intended to bring their respective tariffs into alignment with the current NIPSCO gas tariff, so the rate consolidation contemplated by the Settlement is consistent with that requested relief.

6. Merger Requested Relief. In February 1992, NiSource's predecessor, the parent company of NIPSCO, purchased 100% of the common stock of Kokomo, a privately held gas distribution company. In March, 1993, NiSource's predecessor purchased 100% of the common stock of NIFL, also a privately held gas distribution company. Since then, all

three Petitioners have remained wholly-owned subsidiaries of NiSource or its predecessor. Over the years, the consolidation of management and operations, standardization of processes, and sharing of services allows each Petitioner to benefit from synergies, economies of scale, and specialized resources derived from their being part of a larger organization.

Joint Petitioners propose that Kokomo and NIFL be merged into NIPSCO, with NIPSCO being the surviving corporation (“Post-Merger NIPSCO”). To effectuate the Merger, an Agreement and Plan of Merger has been executed by Joint Petitioners, pursuant to which all of the plant, property, equipment, facilities, operating rights, and other assets of Kokomo and NIFL will be transferred to, acquired by, and vested in NIPSCO. In addition, all of the debts, liabilities, obligations, and contracts of Kokomo and NIFL will be assumed by NIPSCO.

Joint Petitioners request that the Commission authorize the transfer of the indeterminate permits, franchises, and other operating rights held by Kokomo and NIFL to NIPSCO effective on the date of the Merger, and approve the granting to NIPSCO of licenses, permits, and franchises for the use of county roads and rights-of-way as provided in Ind. Code § 36-2-2-23. Upon consummation of the Merger, NIPSCO will adopt and file with the Commission schedules of rates and charges and rules and regulations applicable to gas service not only in the area currently served by NIPSCO but also in the areas now served by Kokomo and NIFL.

The Merger is intended to further integrate and consolidate Joint Petitioners’ service to their customers by combining the three separate corporate entities into a single corporate entity and consolidating their GCA procedures in the manner described below. Because all Joint Petitioners are wholly-owned subsidiaries of NiSource, the Merger will be accomplished without incurring any financing costs or acquisition premiums.

Upon the effective date of the Merger, there shall be recorded and reflected on the books and records of NIPSCO the assets, liabilities, and capital account balances of Kokomo and NIFL, subject to such adjustments as are necessary to reflect the Merger transaction.

7. **Joint Petitioners’ Merger Evidence.** Prior to the submission of the Settlement, Joint Petitioners presented evidence, a portion of which is summarized here and further considered in the discussion of the Settlement below.

A. Jimmy D. Staton, Executive Vice President and Group Chief Executive Officer of the Northern Indiana Energy (“NIE”) Business Segment. Mr. Staton provided background information about the Companies, explained the strategic rationale behind the proposed merger, and discussed the benefits of the merger for all stakeholders – customers, investors, communities, and employees. Mr. Staton stated the common stock of Joint Petitioners is owned by NiSource and to effectuate the merger, NIFL and Kokomo will merge into NIPSCO. The common stock of NIFL and Kokomo will be cancelled and cease to exist, and all of NIPSCO’s stock will continue to be owned by NiSource. The Board of Directors of NIPSCO is not expected to change as a result of the proposed merger.

Mr. Staton explained that in 2004, NIFL and Kokomo were brought under a common Senior Management structure and the integration of most business functions have been completed to date. Any work practices or separation of workforce resources that exist today between the Companies occur due to the differences in negotiated collective bargaining agreements and that Company leadership is currently evaluating how the three collective bargaining agreements can be integrated to be in the best interest of the customers and the employees.

Mr. Staton further explained that over the past several years, the Companies have identified activities ripe for consolidation and have already implemented some changes in the areas of operations, customer service, regulatory frameworks, and employee-related matters. As a result of these efforts, the Companies have achieved benefits associated with increased scale and scope, shared vision, combined expertise, a common regulatory framework, cost savings, and synergies.

Mr. Staton testified there will be short- and long-term benefits resulting from the merger. For example, the merger will support continued implementation of focused, consistent regulatory strategies. Future operational improvements will be consistently implemented across the NIE footprint. Scale and scope synergies will continue to arise through potentially greater combined portfolio management, including anticipated changes to pooling arrangements, consistent service and rate offerings through the ultimate consolidation of the rates, terms and conditions of service for the Companies, integrated financial planning, and potential additional cost savings.

B. Timothy A. Dehring, Senior Vice President, Energy Delivery. Mr. Dehring described the gas system physical assets of the Companies, the operational consolidation that has already occurred in the Companies, and discussed the additional benefits that will result from the merger. The overarching goal of the Companies is to design, construct, operate, and maintain their systems in a manner that supports the provision of safe and reliable service. NIE's consolidated engineering department utilizes a gas network hydraulic simulation model for new design applications at NIPSCO. The two primary variables considered are the maximum quantity of gas that will be needed to meet demand and the minimum pressure needed at the delivery point. NIFL and Kokomo deploy pressure gauges to obtain similar information for their design decisions. Post-merger, NIE will pursue including NIFL and Kokomo in the current simulation model used at NIPSCO. These same engineering groups are working together to develop procedures to comply with upcoming Distribution Integrity Management requirements for all three Local Distribution Companies. Operations and maintenance activities are closely aligned with Department of Transportation ("DOT") pipeline safety regulations. NIE's consolidated gas systems department oversees these activities and provides code compliance information to the Commission's pipeline safety staff on behalf of all three companies. This same group also performs all inspection and maintenance activities on the metering and pressure regulating devices as well as some of the same activities for the pipeline infrastructure. The field operating locations, including NIFL and Kokomo, provide emergency response to gas system needs as well as remedial maintenance work and light construction work, while a central construction group provides for larger in-house and outsourced construction needs.

Mr. Dehring discussed the factors Joint Petitioners take into account when making decisions about how to optimally operate and maintain their systems. The paramount factor is the safe and reliable operation of the system. In conjunction with that goal, the Companies consider their planning criteria, regulatory or other legal mandates, and cost/benefit results and assess system needs and operational processes on an ongoing basis, making decisions concerning system upgrades or operational efficiencies. Through these efforts, many benefits from consolidation have already occurred.

Mr. Dehring testified Joint Petitioners each comply with applicable pipeline safety standards promulgated by the Commission's Pipeline Safety Division and the DOT's Pipeline and Hazardous Materials Safety Administration's Office of Pipeline Safety. The Companies each follow the regulations to ensure the safe and reliable operation of their respective facilities. The recent consolidation of these compliance activities in a single gas system operations group provides a high level of competency, consistency, and focus on the efficient execution of these important operations and maintenance tasks. Most local distribution and transmission operating functions have been successfully integrated within the Companies and the post-merger NIPSCO environment will simply formalize these practices. Those operating functions that are not yet integrated are primarily a function of differences in the negotiated collective bargaining agreements of the Companies.

Mr. Dehring described the operational consolidations that have already occurred in the Companies. All gas control functions are centralized in Hammond, Indiana, and the Companies have the full capability to measure gas flows and pressures throughout their distribution systems. NIPSCO's and Kokomo's liquefied natural gas ("LNG") facilities are maintained and monitored by the same plant engineering group, and all DOT Part 192 compliance activities are already managed on a coordinated basis for the Companies.

Mr. Dehring summarized the consolidation of meter-related activities that has already occurred. All processing of meter reading results for the Companies are centralized in the Merrillville, Indiana, corporate offices. All meter reading results from hand held units and radio frequency results transmitted through Automatic Meter Reading devices are downloaded each evening on a centralized server. Within the last year, NIPSCO personnel assisted the Kokomo operations group with a redesign of their meter reading routes to gain efficiencies and the same reroute plan is scheduled for NIFL in the near future. NIPSCO's Gas Meter Shop has integrated all meter testing and repairs for NIPSCO and Kokomo and plans include the integration of NIFL in the near future.

Mr. Dehring indicated that many field operations that have been centralized and employee-related activities have been combined to date. The Companies implement, enforce, and monitor all federal and state drug, alcohol, and equipment operator qualification requirements and compliance on a centralized basis. In addition, the Companies anticipate that additional benefits can be realized through the continued consolidation or re-organization of operational and related activities.

Mr. Dehring explained that Company leadership is currently evaluating how the three existing collective bargaining agreements can be integrated to be in the best interest of the

customers, the employees, and the Companies. He added that post-merger NIPSCO will have increased flexibility of resource movement and work will be dispatched to field employees based on proximity of employees to work assignments without the artificial constraint of the prior corporate or labor contract lines. As a result, NIPSCO's post-merger collective bargaining agreement, along with its construction group and related flexible work rules, would permit the sharing and movement of crews when the need arises.

Mr. Dehring stated that currently, both Kokomo and NIFL manage their material procurement, materials inventory management, payroll, and overtime reporting on an outdated system using obsolete legacy software. The Companies are evaluating this legacy system to determine the best path forward toward deploying a system that can support the consolidated companies. Post-merger, all customers will benefit by access to state of the art tools that will permit the Companies to consistently offer and track two-hour service appointments and 24/7 service availability. Emergency response will also benefit from access to these tools.

Mr. Dehring explained the benefits in terms of leveraging the capabilities of the respective physical gas systems of the Companies and that post-merger, more efficient solutions to capacity challenges could be designed as demand increases. Post-merger, NIPSCO will be better positioned to more efficiently plan capital expenditures to build-out more effective points of interconnection between NIPSCO and NIFL and provide the advantages just mentioned. In addition, the availability of the NIPSCO distribution system approximately two miles north of the northern limits of the Kokomo system provides additional options to future gas system planning alternatives for Kokomo, which could enhance reliability and help meet capacity challenges.

C. Mitchell E. Hershberger, Controller of NiSource Corporate Services Company. Mr. Hershberger sponsored Petitioner's Exh. MEH-2, the consolidated capital structure that will be in place following the merger of Joint Petitioners. The exhibit sets forth the adjusted capital structure for NIE at June 30, 2010. The balances in the capital structure are the sum of the per books balances for the Joint Petitioners on June 30, 2010. The Return on Equity utilized is 11.50%, long-term debt is reflected at actual cost, Customer Deposits are shown at a blended rate that reflects the interest rates as required by the Commission rules (6.0% for electric-only and combination customers and 0.50% for gas-only customers), and Deferred Income Taxes and Post-Retirement Liability are zero cost components of the capital structure.

Mr. Hershberger testified the information contained in Petitioner's Exh. MEH-2 was compiled from the accounting records kept and maintained by NIPSCO, NIFL, and Kokomo in the ordinary course of business and there is no material difference in how the accounting records are maintained between Joint Petitioners. All three entities follow the same accounting standards contained in the General Accepted Accounting Principles ("GAAP"). NIPSCO utilizes the Federal Energy Regulatory Commission Uniform System of Accounts, and NIFL and Kokomo utilize the National Association of Regulatory Commissioners Uniform System of Accounts.

D. Vincent V. Rea, Assistant Treasurer for NiSource. Mr. Rea testified the proposed merger will provide NIFL and Kokomo enhanced access to the capital markets and greater efficiencies in future capital raising activities than what had previously been available to them. Once NIFL and Kokomo are integrated into the NIPSCO platform, both entities will benefit from NIPSCO's recognition in the marketplace as an experienced issuer of investment grade debt securities. Presently, NIPSCO continues to maintain two classes of debt securities outstanding in the capital markets, including \$164.2 million of Medium-Term Notes with serial maturities through 2027, and \$244 million of Jasper County Pollution Control Bonds with tranche maturities through 2019. Although NIPSCO has not been a new issuer of public debt securities in recent years, it maintains the ability to conduct public debt offerings in the future. With respect to greater efficiencies in future capital raising activities, NIFL and Kokomo will benefit from "size and scale" efficiencies in the capital markets that would not be available to them on a standalone basis. These efficiencies will be manifested in secondary market trading volumes and liquidity, price performance, and lower per unit transactional costs for each dollar of capital raised.

Mr. Rea testified NIFL and Kokomo do not currently maintain external credit ratings, as they have historically relied upon intercompany borrowings from NiSource or NiSource Finance Corp. to address their funding and liquidity requirements. Post-merger, NIFL and Kokomo will directly benefit from NIPSCO's existing credit ratings, which are firmly established with Standard & Poor's ("S&P"), Moody's, and Fitch. Because credit ratings are generally a prerequisite to completing any form of public or private debt offering in the capital markets, NIFL and Kokomo will gain enhanced access to the capital markets simply by leveraging NIPSCO's existing investment grade credit ratings. NIPSCO currently holds an issuer credit rating of BBB- from S&P, a senior unsecured debt rating of Baa2 from Moody's, and a senior unsecured debt rating of BBB from Fitch. All three of these credit ratings are considered investment grade by the financial markets, and under most market circumstances, will ensure that NIFL and Kokomo have sufficient access to reasonably priced debt capital. Mr. Rea does not expect the merger to affect NIPSCO's existing credit ratings either positively or negatively, but he indicated that ultimately the rating agencies will make that determination. Mr. Rea also discussed the impact of the merger on NIPSCO, NIFL, and Kokomo's short-term borrowing practices and system money pool activities.

E. Kathleen O'Leary, Senior Vice President, Communications and Performance Management. Ms. O'Leary explained the communications-related activities the Companies have undertaken or will undertake in connection with the merger and identified the goals and details of the communications efforts. Because of the importance of clearly communicating the Companies' intent to merge and the resulting impacts on customers and other key stakeholders, the Companies developed a comprehensive communications strategy and specific courses of action. The goal of the plan is to ensure the Companies deliver consistent and effective messages designed to educate all key stakeholders, both internal and external, of the merger itself, how the merger will be implemented, and the positive outcomes the Companies anticipate will result from the merger.

Ms. O'Leary stated that as a result of a communication action plan, the Companies will be better able to enhance the safe and reliable provision of service to customers and to

continue strengthening their corporate partnerships with consumer groups, local governments, other constituent groups, and employees. An educated workforce provides the foundation for many of these efforts; therefore, the Companies determined that internal education should be undertaken as part of their efforts. With a strong internal base in place, communicating with external sources will be accomplished by knowledgeable persons who can clearly and transparently convey information.

Ms. O’Leary identified the Companies’ group of initial key messages applicable to both internal and external stakeholders. For the external-focused activities, the Companies have further segmented and identified communications vehicles appropriate for outreach to customers, local elected officials, key community leaders, and local media. The Companies will use a variety of internal and external communications vehicles to accomplish the goal of providing information in as many forms as possible so that any particular stakeholder has the flexibility to access a variety of sources and to obtain varying levels of detail about the transaction.

Ms. O’Leary explained that for outreach to customers, the Companies will use fact sheets, bill inserts, automated phone services, newspaper advertising, community open houses, website updates, targeted individual outreach to large customers, and day-to-day employee interactions with external sources. In undertaking outreach to local elected officials and key community leaders, the Companies will use fact sheets, talking points/frequently asked questions (“FAQs”), outreach letters, and face-to-face meetings. Local media outreach will include fact sheets, talking points/FAQs, media releases, and local news editorial boards, where necessary. For internal communications, the Companies will use supervisor talking points/FAQs, messages from key leaders, employee meetings, and articles in internal print and electronic publications. By making information available in a variety of forms, the Companies anticipate that all stakeholders will have access to information in the manner that best suits their needs.

Ms. O’Leary explained that there will also be a variety of types of meetings with different stakeholders. The broad scope of the types and number of meetings was done in recognition of the benefits associated with in-person (face-to-face) dialogue to supplement written materials. The Companies strongly endorse the need for, and recognize the benefits of, open discourse. By scheduling meetings both in advance of the filing of the merger petition and throughout its consideration by the Commission, the Companies can support open and transparent communication between the Companies and all stakeholders.

F. Debora A. Owen, Director of Customer Contact Centers for NIE. Ms. Owen provided an overview of the customer service functions that have already been consolidated among the Companies and identified additional opportunities for further enhancement of the customer service function post-merger. The Companies’ goal is to provide excellent customer service while also achieving their obligation to provide safe and reliable service at just and reasonable rates. As part of the ongoing efforts to continually enhance the provision of service, the Companies have already implemented a consolidated customer service platform. In 2006, NIPSCO initiated a Customer Information System (“CIS”) project to convert to an NIE-wide CIS and undertook efforts to integrate all customer

interfacing functions of the Companies. In July 2007, all customer contact centers, customer transactions, revenue recovery, and billing functions of NIFL and Kokomo were fully integrated into NIPSCO's customer service operations, which coincided with the conversion to the NIE-wide CIS.

Ms. Owen provided additional details concerning the Companies' integration activities. All direct customer service functions have been consolidated into the Merrillville-based 24/7 call center and all bills now follow a common format styled upon the NIPSCO bill. By adopting the NIPSCO-formatted bill for NIFL and Kokomo, all customers in the NIE group receive the same type of specific customer information. Customers for each company also have separate and distinct 1-800 numbers, which connect to an interactive voice response ("IVR") menu for customer service and gas leak reporting. For non-emergency customer service calls using the IVR system, customers have the additional option to elect a call back rather than waiting in a queue. In addition, all customers served by Joint Petitioners have access to numerous transactional functions via the Companies' websites.

Ms. Owen stated the Companies use both formal and informal methods for assessing customer service performance. The Companies periodically conduct customer satisfaction surveys, analyze that data, identify necessary changes, implement those changes, and track the results of those changes. NIFL, Kokomo, and NIPSCO also track and report information to the Commission on a monthly basis, including the following: (1) phone center performance which includes average speed of answer, abandonment rate, and customer satisfaction with customer service representatives; (2) service appointment punctuality; (3) gas emergency response performance; and (4) meter reading performance. The Companies generate monthly call center metrics that are used to measure and track such items as abandoned rate, CSR availability rate, first call resolution, and customer satisfaction with the CSR. Because of the importance of providing exemplary customer service, the Companies provide additional focus on CSR interactions with customers by separately tracking customer satisfaction with the CSR who assisted a particular customer. In addition to reporting that information, the Companies also analyze the data to identify any trends, designing mechanisms to re-enforce and perhaps adapt for other uses the positive trends, and targeting ways to address those trends showing areas for improvement.

Ms. Owen testified the Companies anticipate that there will be certain changes specific to the merger as well as enhancements that arise from the Companies' ongoing review of their customer service performance. Many of the changes that would traditionally be an outgrowth of a merger are already in place. Further consolidation of processes will take place, for example all customers will receive a NIPSCO bill, all customers will now access a single website, and employee training will be narrowed. Because the amount of information a CSR will need to be knowledgeable about will be reduced, the potential for errors will be reduced. The Companies also anticipate the call handling process for emergency calls will be reduced.

Ms. Owen testified there are currently approximately 8,000 customers who are both NIFL gas and NIPSCO electric customers. Post-merger, these customers will receive an immediate benefit because they will be able to have a single account, with one utility bill and

one payment. Because of this fundamental change, the Companies are designing a specific communication plan targeted to this customer segment.

Ms. Owen stated that initially there will need to be additional training for the CSRs so that they can answer merger-related questions that customers may have. The Companies anticipate that call volumes may initially increase immediately pre- and post-merger, and the Companies have already begun the process of identifying the types of internal training that will be implemented. The Companies will monitor call volumes and will adjust call center resources as warranted.

Ms. Owen stated that initially the NIFL and Kokomo websites will remain active but messages will be added providing a statement concerning the merger and directions for accessing the NIPSCO website. The NIPSCO website will include merger-related information as well and may also be further modified as part of NIPSCO's ongoing efforts to provide clear and transparent communications to customers.

Ms. Owen testified the Companies will continue their practice of conducting periodic surveys and tracking of complaints in order to continually improve and meet customers' needs. In the post-merger environment, NIPSCO may participate in various benchmarking studies in order to investigate additional mechanisms for measuring and benchmarking performance and may adopt those that would provide value. The Companies recognize the need to closely scrutinize customer and stakeholder feedback post-merger and to respond on a timely basis. To facilitate that process, efforts are now underway to design and implement protocols that will provide timely feedback. The Companies also are determining and will put in place mechanisms and/or teams that can rapidly respond to this information either by modifying or eliminating unworkable protocols as necessary.

Ms. Owen testified the merger will not adversely impact customer service; rather, the merger will continue, and in some respects, add to, the customer service enhancements that have already been implemented or are underway. The Companies anticipate that the transition to a post-merger company will be seamless to customers because there will be no degradation or interruption in the quality of service, including customer service. She stated the Companies will continue to survey customers and use other feedback mechanisms so that the results of those efforts can be integrated into the post-merger company.

8. The Settlement. On February 23, 2011, the Parties filed the Settlement in each of the three separate proceedings. The Settlement represents a comprehensive resolution of all issues in the consolidated Causes. The provisions of the Settlement provide for an operational and corporate merger of Kokomo and NIFL into NIPSCO, resulting in the provision of nearly identical natural gas service, rates, and tariff provisions across the combined footprint of the three companies' service territories.

9. Joint Petitioners' Evidence in Support of Settlement.

A. Frank A. Shambo, Vice President, Regulatory and Legislative Affairs for NIPSCO. Mr. Shambo testified the Settlement would take effect the later of May 1,

2011, or the first day of the second calendar month following approval of the Settlement (the “Effective Date”). Mr. Shambo stated the Settlement provides for a fair, efficient, cost effective, and transparent operational and corporate merger of Kokomo and NIFL into NIPSCO resulting in nearly identical provisions of natural gas service across the combined footprint of the aforementioned companies. The Settlement leaves unchanged nearly all of the provisions of NIPSCO’s natural gas service, including the rates, rate schedules, rules, and regulations approved by the Commission on November 4, 2010, in Cause No. 43894 (“NIPSCO Gas Rate Case”). The Settlement contains only minor updates to the rules and regulations to accommodate Kokomo and NIFL customers as discussed below.

Mr. Shambo explained the Kokomo Rate Case was Kokomo’s first in 24 years and the NIFL Rate Case was NIFL’s first in 19 years. Much has changed in the natural gas industry and the economy generally since Kokomo and NIFL placed their current rates into effect on July 29, 1987, and January 29, 1992, respectively. The rate cases in Cause Nos. 43942 and 43943 were filed to address these changes.

Mr. Shambo testified the Settlement is the result of substantial negotiations and investigation of the concerns raised in the Proceedings. Many hours were devoted by all Parties to settlement negotiations both before and after the Agreement in Principle was reached. Mr. Shambo acknowledged the willingness of the other Parties to engage in the rigorous process that resulted in the Settlement. Mr. Shambo expressed his opinion that the Settlement produces just and reasonable rates that balance the interests of the various stakeholders and the overall public interest.

Mr. Shambo testified that the Settlement utilizes most of the terms and conditions of the Stipulation and Settlement Agreement approved by the Commission in the NIPSCO Gas Rate Case. The gas supply portfolios of the three predecessor companies will be consolidated and optimized, with changes in gas costs tracked and subject to monthly flex adjustments through a single quarterly GCA filing beginning on the Effective Date. NIPSCO’s consolidated distribution system will be divided into five delivery zones for purposes of accommodating delivery of gas associated with transportation service and service under NIPSCO’s Choice and ARP services. He explained that the Parties have also agreed to terms of a Code of Conduct applicable to the administration of ARP programs as agreed upon in the Stipulation and Settlement Agreement in the NIPSCO Gas Rate Case.

Mr. Shambo testified that the Settlement will provide an overall reduction in gross margins of \$5.6 million from the levels originally proposed in the Kokomo and NIFL Rate Cases, and an \$800,000 reduction in gross margins from the level produced under Kokomo’s and NIFL’s current rate levels. The Settlement also allows NIPSCO to implement the same rates, tariffs, rules, and regulations that were implemented in the NIPSCO Gas Rate Case across the entire footprint of the merged company. Because the Settlement proposes a full merger of the Companies, with one set of rates, rules, and regulations, NIPSCO will not file an integrated rate proceeding as originally contemplated in the Joint Petition in Cause No. 43941. However, the Settlement does require NIPSCO to file an assessment of the efficiencies gained through the merger within two years.

Mr. Shambo summarized the specific regulatory issues addressed in the Kokomo and NIFL Rate Cases. In their respective Verified Petitions, Kokomo and NIFL identified the following issues that needed to be addressed in the proceeding: (1) the overall rate of return on original cost rate base, capital structure, and return on equity; (2) cost allocation and rate design; (3) introduction of alternative products and services and the treatment of ARP margins; (4) expansion of customer programs for low-income and energy efficiency in the Kokomo and NIFL service territories; (5) appropriate regulatory recovery for certain expenses such as UAFG and Bad Debt; and (6) the modernization of tariff rules applicable to former customers of Kokomo and NIFL that have been in effect for a number of years without change. Mr. Shambo indicated that the regulatory benefits anticipated in the individual rate case filings have been addressed in the Settlement.

Mr. Shambo summarized the Settlement as it relates to the rates to be applied to Kokomo's and NIFL's customers. The rates, charges, and tariffs approved in the NIPSCO Gas Rate Case will be applicable to customers in the Kokomo and NIFL service territories beginning on the Effective Date. The Parties' primary objective of agreeing to use the NIPSCO rates, charges, and tariffs was to accelerate the process of getting all customers in the expanded NIPSCO footprint paying the same charges and being subject to the same rules and regulations. This will greatly increase the efficiency of tariff administration, which is beneficial to both the Commission and NIPSCO. In addition, having all customers subject to the same rates, charges, rules, and regulations should reduce potential confusion for customers.

Mr. Shambo stated the impact on Kokomo and NIFL customer's bills using the NIPSCO rates will vary depending on the applicable rate class and rate schedule considered, but he provided examples of bill impacts for typical residential customers. Post-merger, a typical residential customer in the Kokomo service territory using 822 therms annually will experience an \$18.07 per year or \$1.51 per month decrease in their overall bill. A typical residential customer in the NIFL service territory using 765 therms annually will experience a \$29.89 per year or \$2.49 per month increase in their overall bill. The impact on other Kokomo and NIFL customer classes, as compared to current rates, is generally similar in terms of percentage to that being experienced by residential customers. However, because Kokomo's and NIFL's rate schedules for non-residential rates were not directly comparable to those approved in the NIPSCO Gas Rate Case, a similar comparison is not easily produced.

Mr. Shambo explained the Effective Date that will trigger implementation of the rates and other terms of the Settlement was established to ensure that NIPSCO would have sufficient time to notify customers, third party marketers, community and civic leaders, and other Stakeholders that Kokomo and NIFL have been merged into NIPSCO. Additionally, the Effective Date insures that all billing and customer information systems will perform smoothly when changes are implemented on the first day of the month.

Mr. Shambo stated the Settlement permits a timely expansion of all NIPSCO ARP products and services that will benefit Kokomo's and NIFL's customers, including access to third party marketers through the Choice program. The Commission recently extended these programs for NIPSCO in Cause No. 43837 ("43837 ARPs"). The expansion of NIPSCO's

ARP products and services to Kokomo's and NIFL's customers will result in benefits for large customers, but on a much smaller scale. Mr. Shambo explained that the Kokomo and NIFL service territories have proportionately fewer large customers than NIPSCO's current service territory. However, optional ARP services such as: Large Negotiated Sales Service (Rate 430), Optional Storage Service Rider (Rider 442A), and transportation and balancing services available to eligible customers under Rates 428 and Rate 438 will provide modern and cost effective options for Kokomo's and NIFL's large customers.

Mr. Shambo explained the treatment to be accorded margins earned under the ARP products and services. Incremental margins from ARP products and services shall be treated in accordance with the Order in the NIPSCO Gas Rate Case. The Parties agree the margins associated with the 43837 ARPs to be offered in the Kokomo and NIFL service territories shall be treated as above-the-line for purposes of the GCA NOI earnings test pursuant to Ind. Code §§ 8-1-2-42(g)(3)(C) and 8-1-2-42.3 except for the following: (1) the Gas Cost Incentive Mechanism ("GCIM"), Capacity Release and Optional Storage Service Rider (Rider 442A), which shall be treated as below-the-line but shall continue to be shared with customers through the GCA; (2) the Depend-a-Bill program, which is currently treated as below-the-line at NIPSCO; and (3) Price Protection Service ("PPS").

Mr. Shambo described the expansion of NIPSCO's energy efficiency efforts. Kokomo's and NIFL's customers do not currently have access to energy efficiency programs or Demand Side Management ("DSM") programs. Subsequent to the initiation of these Proceedings, Joint Petitioners initiated a process of completing a DSM Market Potential Study ("Study" or "MPS") in conjunction with a large group of stakeholders. The Parties have agreed to expand NIPSCO's current Energy Efficiency Program approved in Cause No. 43051 to the Kokomo and NIFL service territories. Any new or modified Energy Efficiency Program resulting from the Study will also be made available throughout the consolidated footprint. In addition, NIPSCO will increase its funding of the Energy Efficiency Program by \$100,000 annually through the expiration of the current term of the Energy Efficiency Program. NIPSCO will provide such funding within 30 days of a final Commission Order approving the Settlement.

Mr. Shambo stated that after the effective date, eligible low-income Kokomo and NIFL customers will have access to NIPSCO's low-income assistance program, NIPSCO Care. The details of the program for Kokomo and NIFL customers will be the same as those for current NIPSCO customers, including customer eligibility, program hardship component, the placement of customers in a matrix for determining discounts based on their income levels, and the funding of 25% of program costs by NIPSCO.

Mr. Shambo stated that in the Settlement, NIPSCO indicated its contribution to the low-income assistance programs will be increased proportionately to the number of eligible Kokomo and NIFL customers. NIPSCO will determine its incremental contribution to NIPSCO Care by multiplying the expanded low-income costs by 25%, with \$30,000 of the incremental contribution funding the expanded hardship component to serve those customers with incomes between 151% - 200% of federal poverty standards. NIPSCO also agrees to provide an additional \$15,000 annually to NIPSCO Care across its entire footprint.

Mr. Shambo stated the Parties agreed to an incremental NOI of \$4,602,071 as the authorized incremental earnings for NIPSCO associated with the combined operations of Kokomo and NIFL. The incremental NOI was calculated based on the consolidated capital structure (NIPSCO, Kokomo, and NIFL summed) on March 31, 2010. The incremental NOI is the product of an overall weighted average cost of capital of 6.89%, including an assumed 9.9% return on equity for settlement purposes, multiplied by the combined net original cost rate base of Kokomo and NIFL of \$66,793,488.

Mr. Shambo testified that the Parties agree the application of the rates approved in the NIPSCO Gas Rate Case to the test year volumes for the Kokomo and NIFL systems will produce insufficient revenue and gross margins to provide NIPSCO with an opportunity to earn an incremental NOI of \$4.6 million. The earnings shortfall has been resolved by the creation of an annual credit to depreciation expense and reduction to accumulated depreciation reserve of \$447,394 per year consistent with the methodology approved by the Commission in the NIPSCO Gas Rate Case. Additionally, the credit shall expire concurrently with the credit identified in Paragraph 7(a) of the Stipulation and Settlement Agreement approved in the NIPSCO Gas Rate Case.

Mr. Shambo stated the Depreciation Expense for the combined Kokomo and NIFL operation has been determined on the basis of the NIPSCO gas depreciation rates as approved in the NIPSCO Gas Rate Case. Because Kokomo and NIFL will be merged into NIPSCO, it made sense to determine the Kokomo and NIFL depreciation expenses using the product of NIPSCO's depreciation accrual rates applied to Kokomo's and NIFL's depreciable property. In addition, the plant balances in the current Kokomo and NIFL accounts will be added to the balances in the corresponding NIPSCO accounts for accounting and ratemaking purposes. This permits a single set of depreciation rates for the gas plant throughout the consolidated NIPSCO system upon completion of the merger. The Depreciation Expense associated with the Kokomo and NIFL plant in service is \$1,966,536 and is consistent with the service life study submitted by NIPSCO witness John Spanos in the NIPSCO Gas Rate Case.

Mr. Shambo explained that the only change to Amortization Expense is a reduction of \$323,500 from the originally filed \$491,379 of rate case expenses. The reduction is the result of lower actual expenses due to the early resolution of the Proceedings. The result is an annual rate case expense of \$167,879. He stated that rates will be further reduced upon the full amortization of the rate case expense.

Mr. Shambo stated that the Order in the NIPSCO Gas Rate Case approved the recovery of bad debt expense associated with gas costs through the GCA and bad debt expense associated with non-gas costs through base rates. Pursuant to the Order, NIPSCO will be at risk for any bad debt experience that is greater than a factor of 0.68%. Mr. Shambo proposed that bad debt expense associated with customers in the Kokomo and NIFL service territories will be recovered in the same manner.

Mr. Shambo stated the cost of UAFG will be fully recoverable within the GCA mechanism in the same manner as approved for NIPSCO in the NIPSCO Gas Rate Case up to a maximum UAFG rate of 1.04%. Post-Merger, NIPSCO's UAFG percentage will be

updated annually in its GCA filings based on the actual system-wide UAFG percentage determined for the twelve months ended July 31 in each year.

Mr. Shambo also explained the details of the legal and corporate merger of Kokomo and NIFL into NIPSCO. Most functions within NIPSCO, Kokomo, and NIFL have been consolidated and efficiencies have been realized over the past ten years. The final step, the legal and corporate consolidation of the Companies, will now provide former customers of Kokomo and NIFL the benefits of common rates, tariffs, rules, GCA portfolio, alternative products/services, and customer programs. NIPSCO will provide the Commission and the OUCC with documentation of the completion of the merger transactions within five business days of closing.

Mr. Shambo explained that Kokomo Gas & Fuel Trading's ("KGF Trading") and Northern Indiana Trading Company's ("NITCO") business operations will be wound down and ceased within ninety (90) days of the Effective Date. Prior to the Effective Date, NITCO will transfer ownership of its radio communications tower and related facilities and assign any contracts related to the operation and/or leasing of the tower to NIPSCO. NIPSCO agrees to provide the Commission and the OUCC with written confirmation of the conclusion of wind down and dissolution of any other subsidiaries of Kokomo and NIFL within five (5) business days of the closing of such transactions.

Mr. Shambo stated that after termination of all service contracts and disposition of all physical assets to NIPSCO, NiSource will maintain the existence of NITCO and KGF Trading as inactive companies for approximately 12 months, after which they will be dissolved. Mr. Shambo opined that it is common practice at NiSource, and many other companies, to maintain an operational subsidiary with third-party contracts in an inactive state for a period of time after it winds down its business to confirm there are no unknown or unasserted liabilities or contract claims that may surface. This is done to protect the parent company -- in this case NIPSCO -- from inadvertently assuming any unknown liabilities when the subsidiaries are dissolved and liquidated into the parent company.

Mr. Shambo explained why a Code of Conduct applicable to the administration of services that provide end-use customers with alternatives to traditional gas retail sales service ("non-GCA services") offered under NIPSCO's ARP is included as a component of the Settlement. As part of the Stipulation and Settlement Agreement approved in the NIPSCO Gas Rate Case, the Parties agreed that NIPSCO would develop a code of conduct regarding the administration of its ARP products and services as part of the Merger proceeding. The Parties have worked together in that context and developed a Code of Conduct on a collaborative basis.

Mr. Shambo stated the provisions of the Code of Conduct apply to non-GCA services. The Code of Conduct does not modify or require modification of any aspect of the 43837 ARPs or the re-opening of the record in Cause No. 43837. The first section of the Code of Conduct titled Competitive Neutrality provides specific provisions that prescribe that the Company will not discriminate or give preferences that favor its non-GCA services. The second section titled Transparency requires the Company to provide training to all appropriate

personnel regarding the principles included in the Code and to implement a process to monitor performance under the Code. The third section titled Fair Cost Allocation contains specific provisions that address subsidies, cost allocation, and separation of utility functions from those described as non-GCA services. The Code of Conduct is intended to ensure that NIPSCO's non-GCA services are not unfairly advantaged by virtue of NIPSCO's role as the provider of distribution services.

Mr. Shambo described additional commitments contained in the Settlement that are related to the Code of Conduct, as follows:

- NIPSCO agrees to the incorporation of an additional delivery option for Choice Marketers whereby the Marketer has the option to bring in a flat volumetric amount per day per calendar month as specified by the Company. Any over or under deliveries would be reconciled as they are currently for the other Options, and Marketers that choose this option would be required to mitigate their allocated portion of storage and transport consistent with the current mitigation program. NIPSCO agrees that this delivery option will be incorporated before or during the renewal of the 43837 ARPs.
- NIPSCO agrees that it will implement steps necessary to provide for access to customer information systems and billing records by non-GCA services and Marketers on a non-discriminatory basis no later than the effective date of the successor to the 43837 ARPs.
- NIPSCO agrees that it will incorporate the Choice program into its gas tariff without a stated term of years or sunset date during the renewal of the 43837 ARPs.
- NIPSCO agrees to complete its transition to the maintenance of transparent records that identify and appropriately allocate costs between GCA services and non-GCA services with sufficient specificity and clarity to confirm the proper allocation of costs such that non-GCA services are not underallocated expenses no later than the effective date of the successor to the 43837 ARPs.

Mr. Shambo testified NIPSCO has agreed to reset its earnings bank to \$100,000,000 on the Effective Date. This was the beginning balance approved in the NIPSCO Gas Rate Case for purposes of Ind. Code § 8-1-2-42.3. Mr. Shambo explained how NIPSCO will determine its authorized earnings for purposes of Ind. Code § 8-1-2-42.3 following the merger and approval of the Settlement. The incremental NOI of \$4,602,071 established in the Settlement will be added to the NOI of \$39,841,895 approved for NIPSCO in the NIPSCO Gas Rate Case, resulting in total authorized earnings of \$44,443,966 for the consolidated entity. This amount will be the authorized amount for purposes of the earnings test calculation beginning with the first consolidated quarterly GCA filed on behalf of the consolidated NIPSCO.

Mr. Shambo stated that NIPSCO agrees to file separate gas and electric income statements with the Commission by April of each year, based upon the previous calendar year. In addition, NIPSCO agrees to ensure that its financial reports are transparent and verifiable for future OUCC financial audits and to work cooperatively with the OUCC to facilitate the auditing function.

B. Linda E. Miller, Executive Director, Rates and Regulatory Finance for NIPSCO. Ms. Miller explained that Petitioner's Exh. LEM-S2 is a statement of operating income for Kokomo and NIFL combined for the test year ended March 31, 2010, shown on an actual basis, and with pro forma adjustments at current and proposed rates. The NIPSCO Gas Rate Case rates were applied to the test year volumes for Kokomo and NIFL to produce gross margin from base rates of \$22,615,587. Kokomo's and NIFL's other revenues of \$594,746 were then added, for a total gross margin of \$23,210,333. These components of the total gross margin are shown on Exhibit B of the Settlement.

Ms. Miller stated that the revenue and gas cost adjustments are the combined figures from those included in the original filings in the NIFL and Kokomo Rate Cases. With regard to changes to the pro forma adjustments at current rates for operations and maintenance expenses to those filed in the NIFL and Kokomo Rate Cases, Ms. Miller explained that in Petitioner's Exh. LEM-S2, these are identified with a suffix of "SA" and the adjustment number includes the letter "K" or the letter "N" to identify it as Kokomo or NIFL. Adjustments with the suffix "SA" and no company identifier are for the combined entity.

Ms. Miller stated that the Settlement provides that all ARP products and services approved in the NIPSCO Gas Rate Case will be made available to customers of Kokomo and NIFL. In addition, incremental revenues from ARP products and services will be treated in the same way as approved in the NIPSCO Gas Rate Case; that is to say that the margins will be treated as above-the-line for purposes of the quarterly earnings tests, with the exception of the following: GCIM; Capacity Release and Optional Storage Service Rider (Rate 442A), which will be treated as below-the-line, but will be shared with customers through the GCA; the Depend-a-Bill program, which is currently treated as below-the-line at NIPSCO; and PPS.

Ms. Miller described the separate adjustments as follows:

- Adjustment OM-N13 SA decreases (credits) test year operating expenses in the amount of \$17,403 for uncollectible accounts expense related to NIFL. In accordance with the Settlement, and consistent with the treatment approved in the NIPSCO Gas Rate Case, the gas cost portion of uncollectible accounts (also referred to as "bad debt") will be recovered through the GCA mechanism up to a bad debt ratio of 0.68%.
- Adjustment OM-N14 SA decreases (credits) test year operating expenses in the amount of \$125,000 for expense at NIFL related to manufactured gas plants in the test year. This adjustment removes the full amount of actual expense recorded in the test year.

- Adjustment OM-K14 SA decreases test year operating expenses in the amount of \$9,412 for uncollectible accounts expense related to Kokomo. As approved in the NIPSCO Gas Rate Case, the gas cost portion of uncollectible accounts will be recovered through the GCA mechanism up to a bad debt ratio of 0.68%.
- Adjustment DA-1 SA decreases test year operating expenses in the amount of \$1,522,624 to reflect the implementation of NIPSCO gas depreciation rates approved in the NIPSCO Gas Rate Case. This adjustment was calculated by applying the NIPSCO gas depreciation rates to the plant balances for Kokomo and NIFL. The resulting expense was \$1,522,624 less than the test year expense for Kokomo and NIFL in Cause Nos. 43942 and 43943. Mr. Spanos has reviewed the application of the NIPSCO gas rates to Kokomo and NIFL plant balances to ensure the appropriate classification of assets.
- Adjustment DA-1(a) SA decreases test year operating expenses in the amount of \$447,394 to reflect the annual credit to depreciation expense, offset by a reduction to accumulated depreciation, which will be recorded on the books and records of the consolidated entity per the provisions of the Settlement. This credit will continue until November 4, 2014, the date of expiration of the credit approved in the NIPSCO Gas Rate Case.
- Adjustment DA-2 SA increases test year operating expenses in the amount of \$167,879 to reflect the amortization over a three-year period of rate case costs related to Cause Nos. 43942 and 43943. At the end of the three-year amortization period, NIPSCO will reduce base rates to reflect the full amortization of these costs.
- Adjustments OTX-3 SA and OTX-3(a) SA decrease test year operating expenses in the total amount of \$911,962 to reflect URT related to the pro forma gross revenues and related to trackable gas costs. This adjustment was calculated by applying the URT rate of 1.40% to the pro forma gross revenues. On Petitioner's Exh. LEM-S2, the total adjustment to URT at pro forma present rates is shown as a combination of Adjustments OTX-3 SA and OTX-3(a) SA.
- Adjustment OTX-4 SA decreases test year operating expenses in the amount of \$10,080 to reflect Public Utility Fees related to the pro forma revenues at current rates. The adjustment was calculated by applying the Public Utility Fee rate of 0.1189% to the pro forma revenues.

- Adjustment ITX-1 SA increases test year operating expenses in the amount of \$650,084 for income taxes on the pro forma level of pre-tax income.
- Adjustment PF-1 SA shows the calculation of the decrease in gross revenue from base rates in the amount of \$779,923, to produce the gross revenue requirement of \$76,623,529 and gross margin requirement of \$23,210,333. The decrease in NOI is \$451,906, which provides the opportunity to earn a return of 6.89% on net original cost rate base of \$66,793,488. This is then adjusted for Federal income taxes, State income taxes, URT, Public Utility Fees, and uncollectible accounts.
- Adjustment PF-2 SA reflects the reduction in uncollectible accounts expense on the revenue decrease by multiplying the proposed decrease in revenue requirement by the multiplier of 0.928004%, for a decrease in expense of \$7,238 at the proposed rates level.
- Adjustment PF-3 SA is a calculation of the URT applicable to the proposed decrease in revenue requirement and is calculated by applying the 1.40% rate to the proposed decrease in revenue requirement resulting in a decrease of \$10,919.
- Adjustment PF-4 SA is a calculation of the Public Utility Fees applicable to the proposed decrease in revenue requirement and is calculated by applying the 0.1189% rate to the proposed decrease in revenue requirement, resulting in a decrease of \$927.
- Adjustment PF-5 SA accounts for income taxes applicable to the proposed decrease in NOI. It is calculated by applying the Federal income tax rate to the pro forma federal taxable income and the Indiana state income tax rate to the pro forma state taxable income, resulting in a decrease of \$308,933.

Ms. Miller stated that Petitioner's Exh. LEM-S4 quantifies the net original cost rate base for Kokomo and NIFL combined, as of March 31, 2010, including updates. The total rate base figure of \$66,793,488 is the combined total of Kokomo's filed rate base of \$28,500,819 and NIFL's filed rate base of \$38,292,669.

Ms. Miller stated that Petitioner's Exh. LEM-S4 also shows the computation of the incremental NOI of \$4,602,071, which is the product of the \$66,793,488 rate base for Kokomo and NIFL combined and the 6.89% overall weighted cost of capital using the consolidated capital structure (NIPSCO, Kokomo, and NIFL summed). As provided for in the Settlement, the authorized NOI for the consolidated entity will be \$44,443,966, which is the sum of the incremental amount of \$4,602,071 for Kokomo and NIFL combined and the \$39,841,895 authorized for NIPSCO in the NIPSCO Gas Rate Case.

Ms. Miller stated that Petitioner's Exh. LEM-S5, page 1 of 2, shows the computation of the overall weighted cost of capital using the consolidated capital structure (NIPSCO, Kokomo, and NIFL summed).

Ms. Miller stated that the earnings bank utilized for the quarterly earnings tests will be reset to \$100,000,000 on the Effective Date. The gas cost portion of uncollectible accounts (also referred to as "bad debt") will be recovered through the GCA at a bad debt ratio of 0.68%, which is the same treatment approved for NIPSCO in the NIPSCO Gas Rate Case. UAFG will be recovered in the GCA, up to a maximum of 1.04%, which is also the same treatment approved for NIPSCO in the NIPSCO Gas Rate Case. The combined companies' UAFG percentage will be updated annually.

C. Katherine A. Cherven, Manager of Compliance for NIPSCO. Ms. Cherven described the existing GCA processes for each of the three NIE utilities, followed by a description of the proposed GCA schedule and transition, along with examples of merged NIPSCO GCA schedules if the proposed merger is approved.

Ms. Cherven sponsored the following exhibits: Petitioner's Exh. KAC-S2, which is a proposed merger transition schedule; Petitioner's Exh. KAC-S3, which is an example of merged Schedule 1 estimated gas costs; Petitioner's Exh. KAC-S4, which is a merged Schedule 2 estimated sales; Petitioner's Exh. KAC-S5, which is a merged estimated annual demand costs and demand allocators; Petitioner's Exh. KAC-S6, which is an example of the merging of the variances; Petitioner's Exh. KAC-S7, which is a comparison of the NIPSCO, Kokomo, and NIFL May GCA rates to the merged NIPSCO GCA rate; and Petitioner's Exh. KAC-S8, which is a summary of the 5 year analysis.

Ms. Cherven testified that currently NIPSCO files quarterly GCAs in March, June, September, and December, requesting approval of GCA factors to be effective for the months of June – August, September – November, December – February, and March – May, respectively. NIPSCO also files a monthly flex filing, used to adjust the spot market-priced purchase portion of its GCA portfolio. The Kokomo and NIFL GCA processes are identical except that the utilities file quarterly GCAs in February, May, August, and November, requesting approval of GCA factors to be effective for the months of May – July, August – October, November – January, and February – April, respectively, as well as a monthly flex filing.

Ms. Cherven testified that NIPSCO is proposing to file a single GCA, on the same quarterly cycle as the current NIPSCO filing, seeking approval of GCA factors that would be applicable to the merged NIPSCO. The monthly flex filing would continue to be made. The proposed quarterly GCA filing schedules and supporting testimony for the merged NIPSCO will be nearly identical to the existing GCA filings presently being made by NIPSCO.

Ms. Cherven explained how a transition would be implemented if the effective date is June 1, 2011, and provided examples and details of the merged schedules. She explained that with respect to the combined GCA schedules:

- Schedule 1 (Estimated Costs) will be a combined estimate applicable to all customers of the merged NIPSCO;
- Schedule 2 (Estimated Sales) would also be combined to create new percentages for allocating the estimated costs;
- Schedule 1A (Estimated Annual Demand Costs) for each separate company would be combined and the allocation of those estimated annual demand costs will use new demand allocators based on the merged sales and demand information for the merged company;
- Schedule 12A (Refunds) each company would be combined for refunds applicable to the same billing month; and
- Schedule 12B (Variances) applicable to the same billing month for each separate company would be combined. The NIFL residential variance would be combined with the NIPSCO residential variance, and the remaining NIFL variances would be included in the NIPSCO general service variance. Because the NIFL variances are not broken down between commodity variance and demand variance, the entire variance will be classified as a commodity variance. The Kokomo residential non-heat and residential heat variances would be combined with the NIPSCO residential variance, and the remaining Kokomo variances would be included in the NIPSCO general service variance.

Ms. Cherven testified that consistent with the treatment of NIPSCO UAFG there will be no reduction for UAFG in the GCA estimate. In future NIPSCO reconciliations, UAFG will be recovered up to a cap of 1.04%. In addition, consistent with the calculation of the NIPSCO Bad Debt Cost component, the bad debt ratio applied to the merged NIPSCO commodity and demand costs will be 0.68%.

Ms. Cherven provided a comparison of the estimated May 2011 GCA rates for NIPSCO, Kokomo and NIFL to the merged NIPSCO rate. The comparison was based on a simple summation of the three separate estimates to create a combined estimate. Ms. Cherven also provided a historical analysis of combined GCA costs, which compared merged estimated gas costs without variances and merged estimated demand costs for a residential customer to the original estimates.

D. Karl E. Stanley, Vice President, Commercial Operations for NIPSCO.

Mr. Stanley discussed the new gas transportation operating zones that will exist within the combined entity, how the existing gas supply portfolios will be combined into one consolidated portfolio, how the dissolution of NITCO & KGF Trading will occur, and how former NITCO and KGF Trading customers will be migrated to either gas transportation, Choice, PPS, DependBill, or the standard GCA service.

Mr. Stanley explained that although much of the merged company's system is interconnected, there are limits to the amount of gas that can flow between certain areas. Because of these limitations, sufficient volumes of gas must be delivered daily into specific operating areas (zones) to ensure system integrity. The merged company will have five operating zones: the Northwest zone; the Northeast zone; the East zone; the Southeast zone; and the South zone.

Mr. Stanley testified there is company-owned and operated capacity between the Northwest and Southeast zones and between the Southeast, East, and Northeast zones. The engineering load studies group has determined the appropriate level of operational zone transfer that can be used in planning gas deliveries. Mr. Stanley explained that it is important to know the available capacity between zones in order to ensure system integrity throughout the service territory, as such capacity will be used to balance the supply from the interstate pipelines into the respective zones with the current demand on the system.

Mr. Stanley stated that the capacity plan does not reflect the maximum capacity between the zones. Because of unanticipated changes in load (primarily caused by weather changes), a portion of the capacity is held in reserve to provide flexibility to system operations as conditions change. Mr. Stanley also explained the limits of transfer volumes used in daily planning and the capacity available between the zones.

Mr. Stanley testified the interstate pipelines and storage fields currently used to supply the NIFL and Kokomo territories are also used to supply the NIPSCO territory. The gas supply planning group has been working with the pipelines to consolidate the number of contracts that currently exist between the three companies in an effort to minimize the operational complexity and simplify the auditing process.

Mr. Stanley testified the gas supply planning process of the Companies will not change in any way under the merged company. Each of the Companies currently contract for supplies on a seasonal basis through a Request for Proposal ("RFP"). Under the merged company, the RFP process will continue but now there will be only one set of requested packages as opposed to three. The merged company will adopt the current peak day planning parameters currently utilized by NIPSCO, which include planning for a 1 in 33 1/3 year occurrence, a 20 percent reserve margin for pipeline capacity and a 5 percent reserve margin for storage capacity.

Mr. Stanley stated that currently, the NIPSCO, NIFL, and Kokomo Price Volatility Mitigation programs utilize the same dollar cost averaging methodology across all three plans and that the plans are identical in form and function with the only difference being the necessary volume to hedge for each company. Under the merged company, the current plans would be combined into one with all of the existing futures contracts transferred into the NIPSCO account. Future plans would be consolidated into one so that any future hedge purchases would reflect the volume of the combined entity as opposed to each individual company.

Mr. Stanley testified NITCO and KGF Trading will wind down and cease operations within 90 days of the Effective Date and will ultimately be dissolved within 12 months of the Effective Date. NITCO and KGF Trading customers will be transitioned to other services after the Effective Date. NITCO and KGF Trading customers were notified that the dissolution would occur shortly after the merger occurs.

Mr. Stanley explained how the Choice, PPS, and Depend-a-Bill programs would be introduced to former NIFL and Kokomo customers who will be eligible for these programs within the combined company. On the Effective Date, Choice marketers will be free to start marketing their products to customers within the newly combined company. Customers will follow the standard enrollment process that currently exists within the NIPSCO Choice program, and once enrolled within the program, they will start receiving service from their new supplier on the date of their next meter read. This process will also be true for the PPS and Depend-a-Bill programs that will be offered by the combined company to its customers. Customers will be free to enroll in these programs on the Effective Date and will first receive service on the date of their next meter read.

Mr. Stanley testified NIPSCO has agreed to coordinate its customer outreach and education concerning the merger and available service options with the Commission, the OUCC, and the Choice Marketers. Mr. Stanley noted that NIPSCO engaged in cooperative customer education after the approval of the Choice program in 1997, and will work closely with the other Parties to do so again.

E. Marvin L. Tapp Jr., Manager, General Accounting of NIPSCO. Mr. Tapp discussed the effective date of the merger, how and when the Kokomo and NIFL books and records, including property, plant and equipment, and gas storage inventory, will be consolidated into NIPSCO's books and records, and the financial reporting requirements for 2010 and 2011 to the Commission. He stated Kokomo and NIFL file Class A-B Private Gas Utility Annual Reports and NIPSCO files a Federal Energy Regulatory Commission Form 2 with the Commission.

Mr. Tapp described the method that will be used to consolidate the Kokomo and NIFL books and records into NIPSCO's books and records. The consolidation of Kokomo and NIFL books and records into NIPSCO's books and records will be accounted for and treated as a statutory merger in accordance with Financial Accounting Standards Board ("FASB") accounting standards codification 805-50-30 Business Combinations – Transactions Between Entities Under Common Control, which requires the assets and liabilities of Kokomo and NIFL to be transferred to NIPSCO at their carrying amounts (original cost net of accumulated depreciation). The consolidation of the books and records will occur on the Effective Date. Mr. Tapp explained that financial and accounting controls are critical factors that contribute to accurate operational results and reduced risk factors and that consolidating the books and records on the first day of a calendar month provides a clean cut off period and reduces accounting control risks associated with financial reporting.

Mr. Tapp described the conversion of Kokomo's and NIFL's depreciable property to NIPSCO's depreciable property. The transfer of Kokomo's and NIFL's depreciable property

to NIPSCO will be performed in accordance with FASB accounting standards codification 805-50-30. Due to the nature of their operations, Kokomo's and NIFL's assets are similar to NIPSCO's and, therefore, can be classified in NIPSCO's existing gas plant accounts. Neither Kokomo nor NIFL have property, plant, or equipment that are unique and not classified in a property account that NIPSCO currently includes in its books. NIPSCO's gas plant depreciation accrual rates approved in the NIPSCO Gas Rate Case will be applied to the converted property.

Mr. Tapp testified KGF Trading has no assets and described the accounting for and treatment of NITCO assets. NITCO will initially become a wholly owned non-regulated NIPSCO subsidiary. In accordance with FASB accounting standards codification 805-50-30, all NITCO assets and liabilities will be transferred to NIPSCO at their carrying cost (original cost net of accumulated depreciation).

Mr. Tapp testified NIPSCO, Kokomo, and NIFL do not account for their storage inventory under the same GAAP method. Mr. Tapp explained that there are a number of acceptable methodologies to value gas in storage inventory under GAAP. NIPSCO applies the last-in-first-out methodology, while both Kokomo and NIFL apply the weighted average cost methodology. The storage inventory balances of Kokomo and NIFL will be consolidated with NIPSCO storage inventory at their carrying value at the time of merger.

Mr. Tapp testified NIPSCO, Kokomo, and NIFL will each file an Annual Report with the Commission for 2010. However, because Kokomo and NIFL will cease to exist in 2011, and only NIPSCO will remain, only one Annual Report will be filed with the Commission for 2011 unless the Commission recommends Annual Reports be submitted for Kokomo and NIFL covering the pre-merger months of 2011.

F. Curt A. Westerhausen, Director of Rates and Contracts for NIPSCO.

Mr. Westerhausen described NIPSCO's proposed IURC Gas Service Tariff, Original Volume No. 7 ("Gas Tariff") which includes the proposed Schedules of Rates ("Rates"), proposed Riders ("Riders") and proposed General Rules and Regulations ("Rules"). He stated that NIPSCO's current Rates, Riders, and Rules were approved in the NIPSCO Gas Rate Case.

Mr. Westerhausen stated that Kokomo's current Rates and Rules were approved by the Commission's July 29, 1987 Order in Cause No. 38096. The test year used in that rate proceeding was the twelve months ending June 30, 1986. Kokomo's current gas tariff contains a package of basic bundled sales and transportation service offerings that are based on the customer demographics and gas needs that existed within Kokomo's service territory in the late 1980s.

Mr. Westerhausen stated NIFL's current Rates and Rules were approved by the Commission's January 29, 1992 Order in Cause No. 39145. The test year used in that NIFL rate proceeding was the twelve months ended January 31, 1991. In general, NIFL's current gas tariff contains a package of basic bundled sales and transportation service offerings that are based on the customer demographics and gas needs that existed within NIFL's service territory in the early 1990s.

Mr. Westerhausen stated for the merged companies, NIPSCO is proposing to utilize its existing Rates, Riders, and Rules, which were approved in the NIPSCO Gas Rate Case. Only minimal changes to NIPSCO's existing Rates, Riders, and Rules are required to incorporate all the customers from the merged companies. Mr. Westerhausen indicated there were no revisions to the five Appendices (A-Applicable Rates, B-Gas Cost Adjustment Factor, C-Energy Efficiency Factor, D-Universal Service Fund, and E-Unaccounted for Gas Percentage) and all of the Appendices will be applicable to Kokomo's and NIFL's customers.

Mr. Westerhausen testified the proposed Gas Tariff includes all the Rates, Riders, and Rules approved in Cause No. 43894. These include the NIPSCO Choice Rates and the full complement of balancing options that are currently available in NIPSCO's transportation Rate 428, Large Transportation and Balancing Service, and Rate 438, General Transportation and Balancing Service. These new offerings, which are not currently available to Kokomo and NIFL customers, will give the merged customers options on their gas supply pricing and needs.

Mr. Westerhausen testified that Kokomo's and NIFL's existing residential customers were mapped to the Proposed Gas Tariff Rate 411, Residential Service. Existing general service customers were mapped to the Proposed Gas Tariff Rate 421, General Service – Small and Rate 425 or General Service – Large based on annual usage. Existing customers using less than 70,000 therms annually were mapped to Proposed Gas Tariff Rate 421. Existing customers using more than 70,000 therms annually but below 365,000 therms were mapped to Proposed Gas Tariff Rate 425. Existing customers that averaged more than 365,000 therms annually were mapped to the Proposed Gas Tariff Transportation Rate 428, Large Transportation and Balancing Service, and Rate 438, General Transportation and Balancing Service.

Mr. Westerhausen described the minor modifications to NIPSCO's existing Rates, Riders, and Rules to incorporate the new transportation zones and include the former Kokomo and NIFL areas. The main changes were in Rates 428 and 438 and to the Index of Cities, Towns, and Unincorporated Communities Furnished Gas Service (reference to Zones A and B were changed to reference Zones A, B, C, D, and E in Rate Schedules 421, 422A, 424A, 425, 430, 431, 442A, 443, 444, 445, 447, 448, and 449). Mr. Westerhausen summarized the other changes as follows:

- The following changes were made to both Rate Schedules 428 and 438. First, the Character of Service section was modified to incorporate all Zones A, B, C, D, and E and to identify the associated pipeline(s) for customers in each of the zones. Second, the Company Balancing Service Category and the Interruptible Gas Overtake Service and Nominated Interruptible Gas Overtake Service sections were expanded to distinguish the daily cash out price calculation and daily overtake price calculation between Zone A and Zones B, C, D, and E. For Zone A customers, the price is calculated using the Chicago City Gate midpoint price. For Zones B, C, D, and E customers, the price is

calculated using the Mich Con City Gate midpoint price, which is representative of market gas prices for those zones.

- Rate 440 was modified in the Character of Service section. With the addition of the LNG facility in Kokomo, the reference to LaPorte, Indiana was removed.

Mr. Westerhausen described the revisions to the Rules. Rule 13 – Service Interruptions and Curtailments was revised to incorporate the Kokomo and NIFL service areas. Rule 13.8 Penalties was expanded to distinguish between Zone A and Zones B, C, D, and E. Section 13.8.1 explains the penalty for Zone A customers is calculated using the Chicago City Gate midpoint price. Section 13.8.2 explains the penalty for Zones B, C, D, and E customers is calculated using the Mich Con City Gate midpoint price.

Mr. Westerhausen explained the changes also included an update of the Index of Cities, Towns, and Unincorporated Communities Furnished Gas Service pages. The addition of the Kokomo and NIFL communities into the merged company's service area expanded this listing by one page, and rather than issuing a "Revised Sheet No. 'X' Superseding 'Y' Sheet" for every subsequent sheet within the existing Original Volume No. 6 to account only for the page numbering change (virtually the entire volume), a new Original Volume No. 7 has been developed as the Proposed Gas Tariff. This change also allowed NIPSCO to reformat the Rules and start each rule on a new sheet to eliminate or minimize page renumbering in the future.

Mr. Westerhausen described the bill impact to residential customers based on existing Kokomo and NIFL rates as compared to the current NIPSCO rates. He stated that in 2009 the average annual Kokomo residential customer use was 822 therms. Based on distributing that average annual usage over a typical residential 12-month usage pattern and incorporating NIPSCO's Energy Efficiency and Universal Service Fund Riders, the customer would have paid \$856.59 annually. Billing that same average customer on NIPSCO Residential Rate 411 would result in a total annual bill of \$838.52, and an annual savings, compared to the 2009 Kokomo annual bill, of \$18.07 or \$1.51/month. Similarly, in 2009 the average annual NIFL residential customer use was 765 therms. Using the same billing criteria, the NIFL residential customer would have paid \$755.70 annually. Billing that same average customer on NIPSCO Residential Rate 411 would result in a total annual bill of \$785.59, in this case an annual increase, compared to the 2009 NIFL annual bill, of \$29.89 or \$2.49/month.

10. OUCC's Evidence in Support of the Settlement.

A. Leja D. Courter, Director of the Natural Gas Division of the OUCC.

Mr. Courter agreed with Mr. Shambo's summation of the Settlement. Mr. Courter testified that applying NIPSCO's current rates and charges will result in lower rates for Kokomo and NIFL customers as compared to those originally sought in Cause Nos. 43942 and 43943. The typical Kokomo residential customer should realize a rate decrease and the typical NIFL residential customer should experience a modest rate increase that is less than NIFL's initial proposed rate increase.

Mr. Courter testified NIPSCO has agreed to make all ARP products and services approved in the 43837 Order available to former Kokomo and NIFL customers, including third party suppliers through the Choice program. The incremental margins from ARP products and services will be treated in the same manner as approved in the NIPSCO Gas Rate Case.

Mr. Courter testified Joint Petitioners agreed to expand NIPSCO's current Energy Efficiency Program approved in Cause No. 43051 as well as any new energy efficiency programs approved as a result of Joint Petitioners' MPS, into the Kokomo and NIFL service territories. NIPSCO's contribution to fund these programs will be increased by \$100,000 annually through the expiration of the current term of the Energy Efficiency Program in November, 2012.

Mr. Courter testified NIPSCO agreed to expand its low-income assistance program, NIPSCO Care, into the former Kokomo and NIFL service territories. NIPSCO's contribution to fund this program will be increased proportionately to the increased number of customers from those territories. The increased contribution will include \$30,000 for hardship customers with income between 151% and 200% of federal poverty standards. NIPSCO has agreed to provide an additional \$15,000 annually to NIPSCO Care across the merged NIPSCO territory.

Mr. Courter explained that the revenue requirement for Kokomo and NIFL was determined by applying NIPSCO's rates and charges to the Kokomo and NIFL test year volumes to produce a gross margin of \$22,615,587. Adding this amount to Kokomo's and NIFL's other revenue of \$594,746 results in a total gross margin of \$23,210,333. This gross margin amount is over \$5.5 million less than the gross margins proposed in the Kokomo and NIFL Rate Cases. Mr. Courter testified the incremental NOI is calculated by multiplying a weighted average cost of capital using a consolidated capital structure at March 31, 2010, by the net original cost rate base associated with the Kokomo and NIFL gas systems. The capital structure uses the same 9.9% return on equity approved in the NIPSCO Gas Rate Case, which produces an overall weighted average cost of capital of 6.89%. The weighted average cost of capital of 6.89% times the net original cost rate of \$66,793,488 produces an incremental NOI of \$4,602,071.

Mr. Courter testified the gross margin amount will not be sufficient to produce an incremental NOI of \$4,602,071. In order to reach an incremental NOI of \$4.6 million, an annual depreciation credit of \$447,394 is necessary. Mr. Courter explained that a depreciation credit was also used in the NIPSCO Gas Rate Case and the credit to be applied in this proceeding will expire concurrently with the credit approved in the NIPSCO Gas Rate Case.

Mr. Courter testified the depreciation expense is based on NIPSCO's depreciation rates approved in the NIPSCO Gas Rate Case. The depreciation expense associated with Kokomo's and NIFL's plant in service is \$1,966,536. The parties agreed to a significant reduction in amortization expense from the proposed amount of \$970,500 for the three year

period. Upon the full amortization of the rate case expense, Joint Petitioners have agreed to reduce rates accordingly.

Mr. Courter testified the Settlement provides that the cost of UAFG will be fully recoverable, up to 1.04% through the GCA mechanism. NIPSCO's post-merger UAFG percentage will be updated annually, but will be capped at 1.04%. Bad debt expense associated with customers in the Kokomo and NIFL service territories will be recovered in the same manner as approved in the NIPSCO Gas Rate Case and that NIPSCO will be at risk for any bad debt expense greater than 0.68%.

Mr. Courter explained that NIPSCO's earnings bank was reset to \$100 million in the NIPSCO Gas Rate Case. The Parties stipulated that the \$100 million earnings bank is still reasonable because it provides consolidated NIPSCO with an opportunity to retain some earnings if the authorized NOI is exceeded but it is not so high that customers may never receive refunds if the consolidated NIPSCO consistently exceeds its authorized NOI.

Mr. Courter explained that the development of a Code of Conduct was agreed to as part of the NIPSCO Gas Rate Case and that the Code of Conduct is applicable to the administration of ARP programs in the consolidated NIPSCO service territory. The Code of Conduct is intended to ensure NIPSCO's non-GCA services are not unfairly advantaged.

Mr. Courter described the accounting reporting requirements in the Settlement. He indicated that a similar approach was included in the NIPSCO Gas Rate Case. He stated NIPSCO agrees to file separate gas and electric income statements with the Commission annually.

Mr. Courter testified the Settlement resolves all the issues involving the Kokomo and NIFL Rate Cases and the Merger. The compromises reached in the Settlement on numerous issues are reasonable in light of the respective positions of the Parties and will enable NIPSCO to provide safe and reliable gas services for all of its customers.

Mr. Courter testified approval of the Settlement will result in rates that are lower for former Kokomo and NIFL customers than would otherwise result from rates proposed in the Kokomo and NIFL Rate Cases. These lower rates are particularly significant because of current economic conditions and the length of time since Kokomo and NIFL had a new base rate case. In addition, Mr. Courter explained that the Settlement establishes uniform rates and monthly service charges across the entire consolidated NIPSCO service territory and these rates will allow NIPSCO an opportunity to earn a fair return.

Mr. Courter concluded that all of these outcomes resulting from the approval of the Settlement will be beneficial to consolidated NIPSCO and its customers, and he recommended approval of the Settlement by the Commission as being in the public interest.

11. Commission Discussion and Findings. Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a

settlement, that settlement “loses its status as a strictly private contract and takes on a public interest gloss.” *Id.* (quoting *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission “may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement.” *Citizens Action Coalition*, 664 N.E.2d at 406.

Furthermore, any Commission decision, ruling, or order – including the approval of a settlement – must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission’s own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusions that the Settlement Agreement is reasonable, just, consistent with the purpose of Indiana Code ch. 8-1-2, and serves the public interest.

The Commission has carefully analyzed the proposed Settlement and the supporting evidence. Based upon that analysis, the Commission finds the Settlement provides a just and reasonable resolution of all matters pending before the Commission in these proceedings. In effect, the Settlement simplifies what had previously been contemplated as a three-step process – (1) setting new rates for Kokomo and NIFL, (2) merging the Companies; and (3) filing a new rate case to create uniform rates. Under the terms of the Settlement, the merger of the Companies will occur immediately with Kokomo and NIFL adopting the rates and charges recently approved by the Commission for NIPSCO in its Gas Rates Case. The evidence demonstrates NIPSCO has a comprehensive plan for communicating with key stakeholders about the merger and its effects. As a result, the Settlement greatly reduces the possibility of customer confusion during the merger process, especially with respect to the impact on customer bills.

In addition, whereas under the originally filed rate cases a typical Kokomo or NIFL residential customer faced a substantial increase in his or her monthly bill, under the terms of the Settlement, a typical NIFL residential customer will experience a lower increase than that originally proposed and a typical Kokomo residential customer will experience a reduction in his or her monthly bill. At the same time, the merger will provide customers in the Kokomo and NIFL service territories with the benefit of improved access to competitive sources of gas supply and capital markets, low-income assistance programs, and energy efficiency programs, which were not previously available to them.

The Settlement also creates benefits to NIPSCO in the form of increases in efficiency from an operational and management perspective. In the future, NIPSCO will be able to file a single GCA proceeding and single rate proceedings for its entire footprint. Similarly, NIPSCO will be able to combine its fuel purchasing into a single consolidated portfolio. Although, the Commission believes the consolidation of fuel purchasing and GCA proceedings will be beneficial to NIPSCO and its ratepayers, we expressed our concern in a docket entry that the consolidation might dilute refunds or variances due to Kokomo’s and

NIFL's customers by spreading them across NIPSCO's entire customer base. In response, to our concerns, NIPSCO proposed an alternative plan to issue a one-time credit on NIFL and Kokomo customers' bills for any positive GCA variance, including refunds received, at the time of the merger, plus a "prepayment credit" for the customers' share of any NIPSCO negative GCA variance, including refunds received, at the time of the merger, which will be charged over the next 12 months. Based upon NIPSCO's response, we expect these credits will be reflected on customers' July 1, 2011 bill. We find NIPSCO's alternative plan is reasonable and should be implemented.

Further, NIPSCO will be able to simplify its customer service operations because of the unified rates, rules, and regulations. The Settlement will also unify the Companies' workforces under a single labor contract, allowing NIPSCO to utilize maintenance and construction crews in the most efficient manner possible without regard to the former company territorial boundaries.

Based upon the evidence, we also find that the application of the Tariff For Gas Service approved for NIPSCO in Cause No. 43837 to the service territories of Kokomo and NIFL is fair, just and reasonable and should be approved subject to the terms and conditions contained in the Settlement. The Commission finds that the proposed rates, treatment of ARP products and revenues, and the proposed treatment of depreciation rates for the merged company have been documented in significant detail and are just and reasonable. We also approve the slight modifications to that tariff as proposed by Mr. Westerhausen to (a) accommodate the addition of the former Kokomo and NIFL service territories, (b) to accommodate the revision of delivery zones to reflect the consolidated service territory as discussed by Mr. Stanley, and to reflect the formatting changes to improve clarity.

The Commission further finds that consistent with the Settlement, Petitioner's total authorized annual NOI shall be \$44,443,966 for purposes of the earnings test component of the GCA, and that the earnings bank for purposes of Ind. Code § 8-1-2-42.3 shall be \$100,000,000 as of the Merger Effective Date.

The parties agree that the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, (*Ind. Util. Reg. Comm'n*, March 19, 1997).

Based upon the evidence and our findings above, the Commission concludes that the Settlement is reasonable, just, consistent with the purpose of Indiana Code ch. 8-1-2, and serves the public interest. Therefore, we approve the terms of the Settlement, including the merger of Kokomo and NIFL into NIPSCO and the application of the rates and charges approved in the NIPSCO Gas Rate Case to Kokomo's and NIFL's customers.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION THAT:

1. The Stipulation and Settlement Agreement between Joint Petitioners, the OUCC, and Intervenors filed on February 23, 2011, shall be and hereby is accepted, approved, and adopted by the Commission in its entirety without modification or change.

2. The merger of Kokomo and NIFL into NIPSCO is approved as proposed.

3. The rates and charges for gas service approved by the Commission in Cause No. 43894 are approved and authorized for adoption throughout the consolidated NIPSCO service territory, inclusive of the former service territories of Kokomo and NIFL. NIPSCO is authorized to modify said tariff to reflect the consolidated tariff, and such tariff shall be effective for bills rendered on and after the Effective Date of the merger as that term is defined in the Stipulation and Settlement Agreement upon its filing with the Commission's Natural Gas Division.

4. The depreciation accrual rates set forth in Petitioner's Exh. JJS-2 shall be and hereby are approved for application to the plant in service balances consolidated into NIPSCO from the former Kokomo and NIFL as provided for in the Stipulation and Settlement Agreement.

5. The Code of Conduct incorporated into the Stipulation and Agreement is approved, and shall be effective as provided for therein.

6. NIPSCO shall file under this Cause documentation of the completion of the merger transaction(s) within five (5) business days of closing, pursuant to Section 17(a) of the Stipulation and Settlement Agreement.

7. NIPSCO shall file under this Cause an assessment of the efficiencies gained through the merger two years following the effective date of this Order, pursuant to Section 17(b) of the Stipulation and Settlement Agreement.

8. NIPSCO shall increase its annual contribution to its Energy Efficiency Program by \$100,000, and provide such funding within 30 days of the effective date of this Order, pursuant to Section 12 of the Stipulation and Settlement Agreement.

9. NIPSCO shall file updated rate tariffs when the rate case expense for this Cause is fully amortized.

10. NIPSCO shall file under this Cause written confirmation of the conclusion and dissolution of any subsidiaries within five (5) business days of the closing of such transactions, pursuant to Section 19(c) of the Stipulation and Settlement Agreement.

11. NIPSCO shall provide a one-time credit on NIFL and Kokomo customers' bills for any positive GCA variance (including refunds received) at the time of the merger, plus a "prepayment credit" for the NIFL and Kokomo customers' share of any NIPSCO negative GCA variance (including refunds received) at the time of the merger, which they will be charged over the next 12 months.

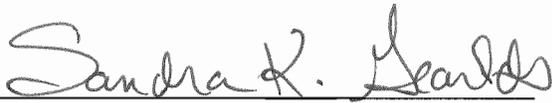
12. NIPSCO shall perform a fully allocated cost of service study for the combined NIPSCO in its next general rate proceeding, pursuant to Section 9 of the Stipulation and Settlement Agreement.

13. This Order shall be effective on and after the date of its approval.

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: MAY 31 2011

**I hereby certify that the above is a true
and correct copy of the Order as approved.**



**Sandra K. Gearlds
Acting Secretary to the Commission**

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT PETITION OF NORTHERN INDIANA PUBLIC)
SERVICE COMPANY (“NIPSCO”), KOKOMO GAS AND)
FUEL COMPANY (“KOKOMO”) AND NORTHERN INDIANA)
FUEL & LIGHT COMPANY, INC. (“NIFL”) FOR APPROVAL)
OF (A) THE TRANSFER TO NIPSCO OF THE FRANCHISE,)
WORKS AND SYSTEM OF KOKOMO AND NIFL)
INCLUDING THEIR ASSETS, DEBTS, LIABILITIES,)
OBLIGATIONS, AND CONTRACTS TO BE EFFECTUATED)
BY A STATUTORY MERGER IN WHICH NIPSCO WILL BE)
THE SURVIVING CORPORATION; (B) NIPSCO’S)
ASSUMPTION OF THE DEBT OBLIGATIONS OF KOKOMO)
AND NIFL PURSUANT TO SUCH MERGER; (C) THE POST-)
MERGER CAPITALIZATION OF NIPSCO; (D) THE)
RECORDING OF THE MERGER TRANSACTION ON THE)
BOOKS AND RECORDS OF NIPSCO; (E) THE TRANSFER)
TO NIPSCO OF THE INDETERMINATE PERMITS AND)
OTHER OPERATING RIGHTS OF KOKOMO AND NIFL (F))
THE GRANTING TO NIPSCO OF LICENSES, PERMITS AND)
FRANCHISES FOR THE USE OF COUNTY ROADS AND)
RIGHTS-OF-WAY BY THE BOARDS OF COMMISSIONERS)
IN THE COUNTIES IN WHICH KOKOMO AND NIFL)
PROVIDE SERVICE; AND (G) THE ADOPTION BY NIPSCO)
OF THE RATE SCHEDULES AND RULES AND)
REGULATIONS OF KOKOMO AND NIFL FOR)
APPLICATION AFTER THE MERGER IN THE AREAS NOW)
SERVED BY KOKOMO AND NIFL WITH REVISIONS TO)
REFLECT THE MERGER AND STANDARDIZATION OF)
CERTAIN PROVISIONS.)

CAUSE NO. 43941

PETITION OF KOKOMO GAS AND FUEL COMPANY)
 (“PETITIONER”) FOR APPROVAL OF AND AUTHORITY)
 FOR: (1) MODIFICATION TO ITS RATES AND CHARGES)
 FOR GAS UTILITY SERVICE; (2) NEW SCHEDULES OF)
 RATES AND CHARGES APPLICABLE THERETO; (3))
 REVISIONS TO ITS DEPRECIATION ACCRUAL RATES; (4))
 AN ALTERNATIVE REGULATORY PLAN ALLOWING)
 PETITIONER TO IMPLEMENT AN ENERGY EFFICIENCY)
 AND DEMAND SIDE MANAGEMENT PROGRAM; (5))
 IMPLEMENTATION OF A NEW LOW-INCOME PROGRAM;)
 (6) AN ALTERNATIVE REGULATORY PLAN ALLOWING)
 PETITIONER TO IMPLEMENT A NEW CUSTOMER)
 CHOICE PROGRAM AND CERTAIN RATEMAKING)

CAUSE NO. 43942

TREATMENTS FOR REVENUES AND EXPENSES)
RELATING TO SERVICES AND PROGRAMS OFFERED)
PURSUANT TO PETITIONER'S NEW CUSTOMER CHOICE)
PROGRAM ALTERNATIVE REGULATORY PLAN; (7) TO)
THE EXTENT NECESSARY, GRANTING THE REQUESTED)
RELIEF AS AN ALTERNATIVE REGULATORY PLAN)
PURSUANT TO IND. CODE CHAPTER 8-1-2.5; (8))
MODIFICATION OF PETITIONER'S GAS COST)
ADJUSTMENT PROCESS TO INCLUDE UNACCOUNTED)
FOR GAS AND THE GAS COST COMPONENT OF BAD)
DEBT EXPENSE; AND (9) VARIOUS CHANGES TO ITS)
TARIFF FOR GAS SERVICE INCLUDING IMPLEMENTING)
A STRAIGHT-FIXED VARIABLE RATE DESIGN,)
REMOVAL OF GAS COSTS FROM BASE RATES AND)
CHANGES TO ITS GENERAL TERMS AND CONDITIONS)
FOR SERVICE)

PETITION OF NORTHERN INDIANA FUEL AND LIGHT)
COMPANY, INC. ("PETITIONER") FOR APPROVAL OF)
AND AUTHORITY FOR: (1) MODIFICATION TO ITS)
RATES AND CHARGES FOR GAS UTILITY SERVICE; (2))
NEW SCHEDULES OF RATES AND CHARGES)
APPLICABLE THERETO; (3) REVISIONS TO ITS)
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REGULATORY PLAN ALLOWING PETITIONER TO)
IMPLEMENT AN ENERGY EFFICIENCY DEMAND SIDE)
MANAGEMENT PROGRAM; (5) IMPLEMENTATION OF A)
NEW LOW-INCOME PROGRAM; (6) AN ALTERNATIVE)
REGULATORY PLAN ALLOWING PETITION TO)
IMPLEMENT A NEW CUSTOMER CHOICE PROGRAM)
AND CERTAIN RATEMAKING TREATMENTS FOR)
REVENUES AND EXPENSES RELATING TO SERVICES)
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PETITIONER'S NEW CUSTOMER CHOICE PROGRAM)
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NECESSARY, GRANTING THE REQUESTED RELIEF AS)
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IND. CODE CHAPTER 8-1-2.5; (8) MODIFICATION OF)
PETITIONER'S GAS COST ADJUSTMENT PROCESS TO)
INCLUDE UNACCOUNTED FOR GAS AND THE GAS COST)
COMPONENT OF BAD DEBT EXPENSE; AND (9) VARIOUS)
CHANGES TO ITS TARIFF FOR GAS SERVICE INCLUDING)
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DESIGN, REMOVAL OF GAS COSTS FROM BASE RATES)
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CAUSE NO. 43943

SUBMISSION OF STIPULATION AND SETTLEMENT AGREEMENT

Northern Indiana Public Service Company, Northern Indiana Fuel & Light Company, Kokomo Gas & Fuel Company, the Indiana Office of Utility Consumer Counselor, and the Choice Marketer Group (collectively, the "Settling Parties") submit the *Stipulation and Settlement Agreement* attached hereto as Joint Exhibit 1 to the Indiana Utility Regulatory Commission ("Commission") in the above captioned proceedings. In support, the Settling Parties show the following:

1. On February 14, 2011, the Settling Parties submitted a *Notice of Agreement in Principle and Motion for Consolidation* in each of these three proceedings proposing their consolidation for hearing to consider a settlement that would memorialize the agreement in principle that had been reached. The attached *Stipulation and Settlement Agreement* is submitted to the Commission in resolution of all issues in these proceedings.
2. For the sake of administrative efficiency and to avoid duplicate filings, the Settling Parties propose to submit additional testimony supporting the proposed *Stipulation and Settlement Agreement* upon a ruling on the pending *Motion to Consolidate*.
3. The undersigned is authorized to submit Joint Exhibit 1 on behalf of all three Settling Parties.

Respectfully Submitted,

Northern Indiana Public Service Company



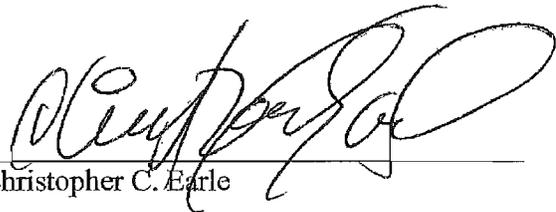
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NiSource Corporate Services Company
101 West Ohio Street, 17th Floor
Indianapolis, Indiana 46204
Phone: (317) 684-4904
FAX: (317) 684-4918
Email: cearle@nisource.com

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on the 23rd day of February, 2011, the foregoing document was served upon the following via electronic delivery, addressed to:

Jeffrey M. Reed
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
PNC Center
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Indianapolis, Indiana 46282
trichardson@lewis-kappes.com



Christopher C. Earle

Joint Exhibit 1
(Stipulation and Settlement Agreement)

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT PETITION OF NORTHERN INDIANA PUBLIC)
SERVICE COMPANY (“NIPSCO”), KOKOMO GAS AND)
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CAUSE NO. 43942

TREATMENTS FOR REVENUES AND EXPENSES)
RELATING TO SERVICES AND PROGRAMS OFFERED)
PURSUANT TO PETITIONER’S NEW CUSTOMER CHOICE)
PROGRAM ALTERNATIVE REGULATORY PLAN; (7) TO)
THE EXTENT NECESSARY, GRANTING THE REQUESTED)
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CAUSE NO. 43943

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement ("Agreement") is entered into by and between Kokomo Gas & Fuel Company ("Kokomo"), Northern Indiana Fuel & Light Company ("NIFL"), Northern Indiana Public Service Company ("NIPSCO"), the Indiana Office of Utility Consumer Counselor ("OUCC"), and the Choice Marketer Group who stipulate and agree for purposes of settling the issues in these Causes that the terms and conditions set forth below represent a fair and reasonable resolution of the issues subject to incorporation into a Final Order of the Indiana Utility Regulatory Commission ("Commission") without any modification or condition that is not acceptable to the Parties.

A. Background.

1. NIPSCO's Current Base Rates and Charges. NIPSCO's base rates and charges for natural gas utility service were approved by the Commission in a Final Order dated November 4, 2010 in Cause No. 43894 (the "NIPSCO Rate Order"). Compliance tariffs incorporating the approved rates and charges along with revised Rules and Regulations for the provision of Gas Service were approved by the Commission on November 5, 2010.

2. NIPSCO's Alternative Regulatory Plan. The Commission approved a Final Order on October 8, 1997 in Cause No. 40342 accepting the terms of an Amended Stipulation and Settlement Agreement and the implementation of an alternative regulatory plan ("ARP") pursuant to the terms of Ind. Code § 8-1-2.5. The ARP approved in that proceeding approved a variety of programs on a pilot basis, and also approved a series of affiliate guidelines applicable to NIPSCO and its affiliated companies. The approved ARP has remained in effect, subject to periodic modifications approved by the Commission, since that time. The Commission most

recently approved a two year extension and modification of NIPSCO's gas ARP in its March 31, 2010 Final Order in Cause No. 43837 (the "43837 ARP").

3. NIPSCO's Low Income Assistance Program. In the Settlement Agreement approved by the Commission in the NIPSCO Rate Order, NIPSCO agreed to implement a low-income assistance program, under the name NIPSCO Care program similar to the universal service fund ("USF") programs already in place for Citizens Gas and Vectren Energy Delivery, and to fund 25% of NIPSCO Care costs with shareholder dollars (the "Low Income Assistance Program").

4. NIPSCO Gas Energy Efficiency Programs. NIPSCO currently administers an energy efficiency and demand side management program approved by the Commission in Cause No. 43051. That program was extended through November 9, 2012 in the NIPSCO Rate Order in anticipation of the filing of a successor program supported by a market potential study by April 1, 2011, and NIPSCO agreed to contribute an additional \$1.0 Million within 30 days of the NIPSCO Rate Order for that program in addition to the \$1.0 Million already funded (the "Energy Efficiency Program").

5. These Proceedings.

a. Merger Petition - Cause No. 43941.

By the Verified Joint Petition filed with the Commission on September 1, 2010, NIPSCO, NIFL and Kokomo sought, *inter alia*, authority of the Commission to effectuate a merger of their companies, with NIPSCO as the surviving merged entity.

b. Kokomo Rates Petition - Cause No. 43942

By the Verified Petition filed with the Commission on September 1, 2010, Kokomo sought authority from the Commission to, *inter alia*, adjust its rates and charges for natural gas utility service and for authority to expand the availability of NIPSCO's Low Income Assistance Program and Energy Efficiency Program along with the products, services and programs currently available under the 43837 ARP to the current Kokomo service territory.

c. NIFL Rates Petition - Cause No. 43943

By the Verified Petition filed with the Commission on September 1, 2010, NIFL sought authority from the Commission to, *inter alia*, adjust its rates and charges for natural gas utility service and for authority to expand the availability of NIPSCO's Low-Income Assistance Program and Energy Efficiency Program along with the the products, services and programs currently available under the 43837 ARP to the current NIFL service territory.

B. Summary of Settlement Agreement.

6. The provisions of this Agreement provide for an operational and corporate merger of Kokomo and NIFL into NIPSCO, resulting in the provision of natural gas service across the combined footprint of the NIPSCO, Kokomo and NIFL service territories under a single set of tariffs as approved by the Commission for NIPSCO in the NIPSCO Rate Order. The gas supply portfolios of the three predecessor companies will be consolidated and optimized, with changes in gas costs tracked and subject to monthly flex adjustments through a single quarterly gas cost adjustment filing ("GCA") beginning on the effective date of the merger as defined in Paragraph

17 of this Agreement. NIPSCO's consolidated distribution system will be divided into five (5) delivery zones for purposes of accommodating delivery of gas associated with transportation service and service under NIPSCO *Choice* and ARP services.

7. Because application of currently approved NIPSCO rates to the test year volumes for Kokomo and NIFL produces insufficient incremental revenue to support the agreed increment to authorized NOI, the Parties have agreed to an annual credit to depreciation expense and reduction to accumulated depreciation reserve equal to the amount of the shortfall, with the annual credit to expire on November 4, 2014 or until further order of the Commission, whichever comes first. The application of the credit to depreciation expense and reduction to accumulated depreciation reserve should be recorded in format identical to the treatment approved by the Commission for a depreciation credit for NIPSCO in the NIPSCO Rate Order.

8. The Parties have agreed to terms of a Code of Conduct applicable to the administration of ARP programs as agreed upon in the Stipulation and Settlement Agreement in the NIPSCO Rate Order, ¶8. A copy of that Code of Conduct is attached to this Agreement as Exhibit A. In addition to the Code of Conduct,

- a. NIPSCO agrees to the incorporation of an additional delivery option for Choice Marketers consistent with that presently applicable to PPS and Depend-a-Bill, whereby the Marketer has the option to bring in a flat volumetric amount per day per calendar month as specified by the Company. Any over or under deliveries would be reconciled as they are currently for the other Options, and Marketers that choose this option would be required to mitigate their allocated portion of storage and transport consistent with the current mitigation program. NIPSCO agrees

that this delivery option will be incorporated before or during the renewal of the 43827 ARP.

- b. NIPSCO agrees that it will implement steps necessary and appropriate to provide for access to customer information systems and billing records by non-GCA services and marketers on a non-discriminatory basis no later than the effective date of the successor to the 43837 ARP.
- c. NIPSCO agrees that it will incorporate the *Choice* program into its gas tariff without a stated term of years or sunset date during the renewal of the 43827 ARP.
- d. NIPSCO agrees to complete its transition to the maintenance of transparent records that identify and appropriately allocate costs between GCA services and non-GCA services, with sufficient specificity and clarity to confirm the proper allocation of costs such that non-GCA services are not underallocated expenses no later than the effective date of the successor to the 43827 ARP.

C. Terms and Conditions of Settlement.

9. Rates and Charges Applicable to Former Kokomo and NIFL Customers. The Parties agree that the tariffs, rates and charges approved in the NIPSCO Rate Order shall be applicable to customers in the former Kokomo and NIFL service territories beginning on the Merger Effective Date as that term is defined in Section 17 of this Agreement. NIPSCO agrees that it will perform a fully allocated cost of service study for the combined NIPSCO in its next general rate proceeding

10. ARP Products and Services Applicable to Former Kokomo and NIFL Customers. NIPSCO agrees to make all ARP products and services approved in the 43837 ARP available to customers in the former Kokomo and NIFL service territories, including without limitation access to third party suppliers through the *Choice* program.

11. NIPSCO, in concert with the OUCC, Marketers and Commission, agrees to engage in customer outreach and information activities intended to explain the ARP products and services and the options available to customers under the 43837 ARP.

12. Energy Efficiency Programs Applicable to Former Kokomo and NIFL Customers. NIPSCO agrees to expand its Energy Efficiency Program (and future energy efficiency programs) to customers in the former Kokomo and NIFL service territories. The Parties agree that NIPSCO's contribution will be increased by \$100,000 annually through the expiration of the current term of the Program to reflect the number of customers from the former Kokomo and NIFL service territories. NIPSCO will provide such funding within 30 days of a final Commission Order approving this Agreement.

13. Low Income Assistance Programs Applicable to Former Kokomo and NIFL Customers. NIPSCO also agrees to expand its low-income assistance program, NIPSCO *Care*, to customers in the former Kokomo and NIFL service territories. The Parties agree that NIPSCO's contribution will be increased proportionately to the increased number of customers from the former Kokomo and NIFL service territories. NIPSCO will determine its expanded contribution to NIPSCO *Care* by applying 25% to the expanded low-income program costs to be experienced for qualifying customers in the former Kokomo and NIFL service territories. \$30,000 of NIPSCO's total expanded contribution to low-income assistance will be for hardship

customers with incomes between 151% - 200% of federal poverty standards. NIPSCO also agrees to provide an additional \$15,000 annually to NIPSCO *Care* across its entire footprint.

14. Revenue Requirement and Authorized NOI

- a. Rate Revenues. The Parties agree that the application of NIPSCO rates and charges as approved in the NIPSCO Rate Order to the test year volumes for Kokomo and NIFL produce gross margins (base rate revenues less gas costs) of \$22,615,587, and, when added to NIFL and Kokomo other revenue of \$594,746, produces total gross margins of \$23,210,333. Application of NIPSCO rates and charges to customers in the former NIFL and Kokomo service territories will produce a reduction of \$5,557,216 in gross margins from the combined gross margins proposed in Cause Nos. 43942 and 43943. Exhibit C attached to this Agreement compares the rates originally proposed to those agreed to in settlement.
- b. Revenue Shortfall from NIPSCO Rates. The Parties agree that the application of NIPSCO rates to the test year volumes for the former Kokomo and NIFL systems produces insufficient revenue and gross margin to provide NIPSCO with an opportunity to earn the return resulting from the product of the weighted average cost of capital using a consolidated (NIPSCO, NIFL and Kokomo summed) capital structure at March 31, 2010, and the net original cost rate base associated with the Kokomo and NIFL gas systems.
- c. Net Operating Income. The Parties agree that the consolidated NIPSCO should be authorized an incremental annual NOI of \$4,602,071 associated

with the combined operations of the former Kokomo and NIFL and their merger into NIPSCO, and such incremental NOI should be added to the authorized NOI approved for NIPSCO of \$39,841,895 in the NIPSCO Rate Order for purposes of the earnings test calculation beginning with the first consolidated quarterly GCA filed on behalf of the consolidated NIPSCO. This NOI was calculated based on the consolidated (NIPSCO, NIFL, and Kokomo) capital structure at March 31, 2010 including an assumed 9.9% return on equity and an overall weighted average cost of capital of 6.89% multiplied by the combined net original cost rate base of Kokomo and NIFL of \$66,793,488. The Parties agree that this NOI reflects a compromise for the purpose of settlement, and is agreed upon without prejudice to the ability of any Party to propose reconsideration of that value on a prospective basis in future proceedings. Attached to this Agreement as Exhibit B is a Statement of Income detailing the calculation of the incremental NOI as agreed by the Parties, and showing the calculation of the weighted average cost of capital used in deriving the agreed upon incremental NOI.

15. Depreciation and Amortization Expense.
 - a. Depreciation Expense. The Parties agree that depreciation expense should be based on NIPSCO's depreciation rates as approved in the NIPSCO Rate Order, and the plant balances in the current Kokomo and NIFL accounts shall be added to the balances in the corresponding NIPSCO accounts for ratemaking purposes, allowing for a single uniform set of depreciation

rates for the gas plant throughout the consolidated NIPSCO upon completion of the merger contemplated by this Agreement. The Parties agree that Depreciation Expense associated with the Kokomo and NIFL plant in service is \$1,966,536 and is consistent with the service life study submitted by NIPSCO witness John Spanos in Cause No. 43894.

- b. Credit to Depreciation Expense. In recognition of the revenue shortfall identified in Paragraph 13.b. of this Agreement, the Parties agree to an additional credit to depreciation expense and reduction to accumulated depreciation reserve of \$447,394 per year consistent with the methodology approved by the Commission in the NIPSCO Rate Order, and that such credit shall expire concurrently with the credit identified in Paragraph 7(a) of the Stipulation and Settlement Agreement approved in that Cause.
- c. Amortization Expense. The Parties agree to the amortization of NIPSCO's rate case costs related to this proceeding over three years, resulting in an annual expense of \$167,879. This is a reduction of \$323,500 per year from the as-filed annual rate case expense of \$491,379. The Parties agree that rates will be reduced upon the full amortization of the rate case expense.
- d. Treatment of ARP Revenues. Incremental revenues from ARP products and services shall be treated in accordance with the NIPSCO Rate Order. The Parties agree the margins associated with 43837 ARP programs to be offered in the former service territories of NIFL and Kokomo shall be treated as above-the-line for purposes of the GCA NOI earnings test

pursuant to Ind. Code § 8-1-2-42(g)(3)(C) and § 8-1-2-42.3 except for (i) the Gas Cost Incentive Mechanism (“GCIM”), Capacity Release and Optional Storage Service Rider (Rider 842A), which shall be treated as below-the-line but shall continue to be shared with customers through the GCA and (ii) the Depend-a-Bill program, which is currently treated as below-the line at NIPSCO, and (iii) Price Protection Service.

- e. MGP Remediation Expenses. NIPSCO agrees to the elimination of \$125,000 from pro-forma expenses associated with former manufactured gas plant sites ("MGPs") originally proposed in Cause No. 43943. NIPSCO agrees that no MGP expenses will be recovered through the application of NIPSCO rates to the former NIFL and Kokomo service territories.

16. Special Cost Recovery Mechanisms.

- a. Bad Debt Related to Gas Cost Expense. Bad debt expense associated with customers in the Kokomo and NIFL service territories shall be recovered in the same manner as approved for NIPSCO in the NIPSCO Rate Order, with bad debt associated with gas costs tracked through the GCA on the same terms as approved in the NIPSCO Rate Order, and bad debt associated with non-gas costs recovered through base rates. NIPSCO will be at risk for any bad debt experience that is greater than 0.68%, the amount approved in the NIPSCO Rate Order.
- b. Unaccounted for Gas (“UAFG”). The cost of UAFG will be fully recoverable within the GCA mechanism in the same manner as approved

for NIPSCO in the NIPSCO Rate Order up to a maximum UAFG rate of 1.04%. The Parties agree that the combined companies' UAFG percentage shall be updated annually.

17. Merger of Kokomo and NIFL into NIPSCO. The Parties agree that the merger of Kokomo and NIFL into NIPSCO through the transfer of its franchise works and/or system is in the public interest and should be approved. The Parties agree that such merger should be completed by the later of May 1, 2011 or the first day of the second calendar month following approval of this Agreement by the Commission (the "Merger Effective Date").

- a. NIPSCO agrees to provide the Commission and the OUCC with documentation of the completion of the merger transaction(s) within five (5) business days of closing.
- b. NIPSCO agrees to file a report with the Commission detailing synergies and savings associated with the merger two (2) years after the approval of a final Order in these Causes approving this Agreement.
- c. NIPSCO agrees to provide customers in the former Kokomo and NIFL service territories with written notice of the merger upon its completion, and agrees to provide customer outreach and education at its expense.

18. Earnings Bank. For purposes of Ind. Code § 8-1-2-42.3, the Parties agree that the consolidated NIPSCO earnings bank will be reset to \$100,000,000 on the Merger Effective Date

19. Disposition of Subsidiaries of Kokomo and NIFL.

- a. KGF Trading, Inc. ("KGF"). The business operations of KGF (a wholly owned subsidiary marketer of Kokomo) will be wound down and ceased

within ninety (90) days of the Merger Effective Date, and KGF Trading will be dissolved within 12 months of the Merger Effective Date.

- b. Northern Indiana Trading Company, Inc. ("NITCO") The business operations of NITCO (a wholly owned subsidiary marketer of NIFL) will be wound down and ceased within ninety (90) days of the Merger Effective Date, and NITCO will be dissolved within 12 months of the Merger Effective Date. It is agreed that prior to the Merger Effective Date, NITCO shall transfer ownership of its radio communications tower and related facilities to NIPSCO, and shall assign any contracts related to the operation and/or leasing of that tower to NIPSCO.
- c. Notification. NIPSCO agrees to provide the Commission and the OUCC with written confirmation of the conclusion of wind down and dissolution of any subsidiaries of Kokomo and NIFL within five (5) business days of the closing of such transactions.

20. Accounting Reporting. NIPSCO agrees to file separate gas and electric income statements with the Commission annually by April based on the previous calendar year. NIPSCO agrees to insure that its financial reports are transparent and verifiable for future OUCC financial audits. NIPSCO agrees to work cooperatively with the OUCC to facilitate the auditing function.

C. Procedural Aspects of Settlement and Presentation of this Agreement.

21. The Parties agree to jointly present this Agreement to the Commission for its approval in this proceeding, and agree to present supplemental testimony as necessary to provide an appropriate factual basis for such approval. The Parties agree that Cause Nos. 43941, 43942 and 43943 should be consolidated for purposes of the consideration of this Agreement. In the

event that this Agreement is not approved or is otherwise terminated, the Parties agree that such consolidation shall not be binding for consideration of these Causes by the Commission, and any Party may advocate any procedural position with respect to such consideration.

22. If this Agreement is not approved by the Commission, the Parties agree that the terms hereof shall be privileged and shall not be admissible in evidence or in any way discussed in any subsequent proceeding. Moreover, the concurrence of the Parties with the terms of this Agreement is expressly predicated upon the Commission's approval of the Agreement in its entirety without any material modification or any material further condition deemed unacceptable by any party. If the Commission does not approve the Agreement in its entirety, the Agreement shall be null and void and deemed withdrawn, unless otherwise agreed in writing by the Parties within fifteen (15) days of issuance of a final Order.

23. The terms of this Agreement represent a fair, just and reasonable resolution by negotiation and compromise. As set forth in the Order in *Re Petition of Richmond Power & Light*, Cause No. 40434 at page 10, as a term of this Agreement, neither this Agreement, nor the Order approving it, to be cited as precedent by any person or deemed an admission by any Party in any other proceeding except as necessary to enforce its terms before the Commission, or any court of competent jurisdiction on these particular issues. This Agreement is solely the result of compromise in the settlement process. Each of the Parties hereto has entered into this Agreement solely to avoid further disputes and litigation with the attendant inconvenience and expenses.

24. The evidence of record presented by the Parties in these Causes in support of this Agreement constitutes substantial evidence sufficient to support this Agreement and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and

conclusion of law necessary for the approval of this Agreement, as filed. The Parties agree to the admission into the evidentiary record of this Agreement, along with testimony supporting it without objection.

25. The issuance of a final Order by the Commission approving this Agreement without any material modification shall terminate all proceedings in regard to this Cause.

26. The undersigned represent and agree that they are fully authorized to execute this Agreement on behalf of their designated clients who will be bound thereby.

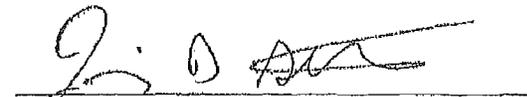
27. The Parties shall not appeal the final Order or any subsequent Commission order as to any portion of such order that is specifically implementing, without modification, the provisions of this Agreement and the Parties shall not support any appeal of the portion of such order by a person not a Party to this Agreement. The provisions of this Agreement shall be enforceable by any Party at the Commission or in any court of competent jurisdiction, whichever is applicable.

28. The communications and discussions during the negotiations and conferences which produced this Agreement have been conducted on the explicit understanding that they are or relate to offers of settlement and shall therefore be privileged.

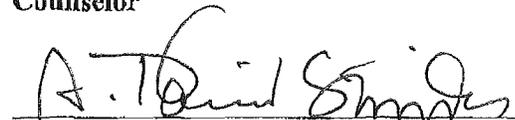
ACCEPTED AND AGREED this _____ day of February, 2011.

Northern Indiana Public Service Company

**Indiana Office of Utility Consumer
Counselor**

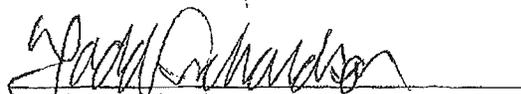


Jimmy D. Staton



A. David Stippler

Choice Marketer Group



Todd A. Richardson

Exhibit A
(Code of Conduct)

CODE OF CONDUCT

This Code of Conduct is established in connection with the merger between Northern Indiana Public Service Company ("NIPSCO"), Kokomo Gas and Fuel Company ("Kokomo") and Northern Indiana Fuel and Light Company Inc. ("NIFL") (collectively the "Utility"), for which approval has been sought in Cause No. 43941, and with the agreement of the Indiana Office of Utility Consumer Counselor ("OUCC"). The Code of Conduct is further established consistent with the Stipulation and Settlement Agreement approved by the Indiana Utility Regulatory Commission ("Commission") in Cause No. 43894, and the terms, requirements and conditions of the alternative regulatory plan most recently approved by the Commission in Cause No. 43837 ("43837 ARP").

The provisions of this Code of Conduct apply to Utility services that provide end-use customers with alternatives to traditional gas retail sales service ("non-GCA services"). Nothing in this Code of Conduct shall be interpreted to modify or require modification of any aspect of the 43837 ARP or the re-opening of the record in Cause No. 43837.

Where a provision in this Code of Conduct imposes a requirement or prohibits specified conduct, the Utility is prohibited from avoiding such requirement or prohibition in an indirect manner, such as through the utilization of a conduit or intermediary. Nothing in this Code of Conduct should be construed or applied as modifying, impairing or altering in any way the standards and obligations to which the Utility is subject under federal or state law, rules, regulations or regulatory orders. This Code of Conduct may be enforced by the Commission, upon complaint by the OUCC or by any affected entity, in accordance with Indiana law.

Competitive Neutrality

1. The Utility shall not discriminate in favor of its non-GCA services or in favor of any Utility affiliate providing such services, and shall not give preferential treatment to such services or such affiliates. The Utility shall provide comparable service and treatment to all similarly situated marketers, customers or other entities, regardless of affiliation.

2. The Utility shall apply tariffs and their provisions and all other aspects of Utility service on a consistent and non-discriminatory basis to all similarly situated marketers, customers and other entities, and to its non-GCA services, without regard to affiliation.

3. The Utility shall not unreasonably discriminate in favor of its non-GCA services or any Utility affiliate providing such services in matters including, but not limited to, the allocation, assignment, release or transfer of rights to intrastate or interstate transportation or storage capacity, use of Utility distribution facilities, or rights to on-system or off-system storage,

4. The Utility shall not give any non-GCA services or any customers receiving such services a preference or any advantage with respect to the processing of requests for information, handling of complaints, or responses to service interruptions, supply constraints, system emergencies or critical periods.

5. Personnel engaged in the sale, marketing, or pricing of non-GCA services shall not be involved in or participate in any way in decisions relating to the operation of the Utility's system or the provision of GCA services.

6. Any discount, rebate or incentive offered by the Utility to its non-GCA services or to any Utility affiliate providing such services or to any customers receiving such services shall be offered on a non-discriminatory basis to all similarly situated marketers, customers or other entities, regardless of affiliation. Any penalty, fee or other charge related to Utility service for customers receiving non-GCA services or customers of a Utility affiliate providing such services shall be applied to all similarly situated customers, marketers and other entities on a non-discriminatory basis.

7. The Utility shall not condition or tie any agreement to provide GCA services or service to GCA customers, or to provide any advantage or preference with respect to any Utility service, to any agreement relating to non-GCA services or services provided by a Utility affiliate.

8. The Utility shall not unreasonably discriminate in its handling of requests for service or information for or concerning similarly situated customers, and shall process such requests without preference for the Utility's non-GCA services, any Utility affiliate providing such services or any customer receiving such services.

9. Customer call handling shall be conducted on a non-discriminatory basis, without preference to the Utility's non-GCA services or any Utility affiliate providing such services. If a customer requests information about alternatives to GCA services, competitive supply options or choice of service providers, the Utility customer service representative shall direct the customer to the relevant portion of the Utility's website describing competitive alternatives and/or shall offer to provide a list of all known alternative suppliers available to provide such services. The customer service representative shall not promote or endorse the Utility's non-GCA services or any Utility affiliate providing such services, in any preferential manner.

10. In selling, marketing, advertising or otherwise offering non-GCA services, the Utility shall not trade upon, promote, or suggest that customers electing to receive such services may or will receive preferential treatment in connection with the provision of any Utility service.

11. In connection with the sale, marketing or offering of non-GCA services, the Utility and any affiliates providing such services shall clearly disclose to the customer or potential customer that the services are distinct from GCA services.

12. The Utility shall not, in connection with the sale, marketing or offering of non-GCA services, state or imply to any customer or potential customer that the services are superior to competitive alternatives in quality, reliability, or in any other respect, due to the association with the Utility, or that the services offered by comparable marketers or other unaffiliated service providers are inferior or less reliable.

13. In communications with customers eligible to receive service under the Choice Program, the Utility shall not endorse any particular marketer enrolled in the Choice Program,

indicate a preference for any particular marketer, express disapproval with respect to particular marketers, or otherwise attempt to influence the customer's selection of a marketer.

14. In connection with the marketing and promotion of non-GCA services, the Utility shall not selectively target customers currently being served by marketers enrolled under the Choice Program.

15. In connection with the solicitation and enrollment of customers for non-GCA services, the Utility and any affiliate providing such services shall comply with the same terms and conditions to which marketers enrolled in the Choice Program are bound, including specifically the terms and conditions set forth in Supplier Code of Conduct as incorporated in Exhibit 1 to the Supplier Aggregation Service Agreement, as approved in connection with the current ARP, or the successor to such provisions.

16. The Utility shall not engage in joint advertising or marketing with respect to non-GCA services and any other Utility service. The Utility shall not support the sale, marketing or offer of non-GCA services through bill inserts to Utility customers or through postings on the Utility website, unless and to the extent that the Utility provides or offers such support to unaffiliated marketers and service providers on the same terms and conditions. The Utility shall maintain competitive neutrality in any and all presentations or postings on its website, any bill inserts addressing supply options, competitive alternatives or non-GCA services, and any advertisements, promotional materials and public communications relating to non-GCA services.

17. Practices and policies with respect to billing, invoices and bill presentation for customers receiving non-GCA services shall be applied on a non-discriminatory basis to customers receiving similar services from unaffiliated marketers, service providers and other entities.

18. The Utility shall handle and maintain records relating to customer inquiries and complaints concerning non-GCA services in the same manner and to the same extent that it does so with respect to the services provided by unaffiliated marketers, service providers or other entities.

Transparency

19. The Utility shall provide instruction and training to all appropriate personnel with respect to the standards, procedures and principles included in this Code of Conduct, so as to ensure that all applicable personnel have an adequate understanding of the requirements. The Utility shall implement and maintain an internal process to address, correct, and record material violations of this Code of Conduct.

Fair Cost Allocation

20. The Utility shall not subsidize non-GCA services, and shall not allocate or assign costs attributable to non-GCA services to GCA customers or recover such costs from GCA customers.

21. In order to minimize any potential cross-subsidies, Utility employees shall, to the maximum extent practicable, function separately and independently from employees engaged in functions relating to non-GCA services and from employees of Utility affiliates engaged in such functions. The Utility shall, to the maximum extent practicable, maintain operational separation between GCA and non-GCA services, shall preserve all existing operational separation, and shall not implement any added consolidation of such operations or functions without necessity. To the extent physical separation is impracticable, any and all combined operations shall be conducted in compliance with this Code of Conduct.

22. To the maximum extent practicable, employees engaged in operational functions with respect to the Utility's distribution system shall function independently from employees engaged in the sale, marketing, pricing or offering of non-GCA services. Such operational functions shall include, but not be limited to, utilization of the Utility's distribution facilities and on-system storage facilities, the movement of gas on-system, the receipt of gas from off-system sources, the procurement of gas, transportation rights or storage on behalf of GCA customers, and the administration of the Utility's supply portfolio for GCA customers.

23. To the maximum extent practicable, the procurement of supply resources with respect to non-GCA services, including, but not limited to, the purchase of gas, transportation rights and storage capacity, shall be conducted separately and independently from the procurement of supply resources with respect to GCA services. To the maximum extent practicable, the Utility's supply planning functions with respect to GCA services shall be conducted separately and independently from supply planning with respect to non-GCA services.

24. Except with respect to shared corporate services, the procurement of goods, services, assets and other resources by the Utility from an affiliate, the provision of goods, services, assets and other resources by the Utility to an affiliate or any internal transfer to or from non-GCA service operations shall be conducted on a non-discriminatory basis and in compliance with this Code of Conduct.

25. The Utility's operations relating to non-GCA services and any Utility affiliates providing such services shall be appropriately charged for all costs incurred on their behalf. Such costs shall be reasonably allocated and shall include, but not be limited to, those associated with shared facilities, general and administrative support services, including salaries and benefits associated with such personnel and services, and other corporate overheads.

Exhibit B
**(Settlement Statement of Income and
Weighted Average Cost of Capital)**

Kokomo and NIFL Combined Statement of Income - per Settlement Agreement

Test Year Ended March 31, 2010

Line No.	Description	Kokomo and NIFL Combined (1)	
1	Gross Margin	\$ 23,210,333	
2	O&M	\$ 13,113,179	(2) O&M Adj includes: Manufactured Gas Plant (\$125,000) and Bad Debt - NIFL (\$17,403) and Kokomo (\$9,412)
3	Sub total	\$ 10,097,154	
4	Depreciation	\$ 1,966,536	Revised depreciation rates
5	Depreciation Credit - Accounting Entry	\$ (447,394)	
6	Amortization	\$ 416,814	(3)
7	Other Taxes	\$ 1,548,888	
8	Sub total	\$ 3,484,844	
	<i>Interest deduction (see below)</i>		
9	Federal and State Taxes	\$ 2,010,239	
10	NOI	\$ 4,602,071	
Adjustments			
1	DA-1 SA and DA-1(a) SA - Depreciation Expense Adjustments	\$ (1,970,018)	
2	DA-2 SA - Amortization Expense - Rate Case Expenses	\$ 167,879	
3	OTX-3 SA - Utility Tax Receipt (Proforma Revenue)	\$ (911,962)	
4	OTX-3(a) SA - Utility Tax Receipt (Gas Costs)	\$ 752,185	
5	OTX-4 SA - Public Utility Fee	\$ (10,080)	
6	PF-1 SA (Revenue)	\$ (779,923)	
7	PF-2 SA (Uncollectible Accounts)	\$ (7,236)	
8	PF-3 SA (Indiana Utility Receipts Tax)	\$ (10,919)	
9	PF-4 SA (Public Utility Fees)	\$ (927)	
10	PF-5 SA (Federal and State Taxes)	\$ (308,933)	
11	ITX-1 SA - Federal and State Taxes	\$ 650,084	
Interest deduction calculation			
12	Interest Expense:		
13	Rate Base	\$ 66,793,488	
14	Multiply by Cost of LTD (Excluding Post 1970 ITC)	2.03%	
15	Interest Expense	\$ 1,355,906	

(1) The numbers were calculated on a NIE March 31, 2010 capital structure, NIPSCO Gas depreciation rates applied and a gross margin produced by applying NIPSCO Gas tariffs.

(2) NIPSCO Uncollectible gross up rate applied

(3) Revised Rate Case Expenses - Actual thru Dec of \$444K and Forecasted expense for COSS and Other of \$60K for a Total of \$504K. The filed NIFL & Kokomo Rate Case Expenses were a forecasted amount of approximately \$1.5M

* Jurisdictional margins of \$22,615,587 + Other Revenue \$594,746 = \$23,210,333

NNK Capital Structure
March 31, 2010 As Adjusted

Line No.	Description A	Total Company Capitalization B	Percent of Total C	Cost D	Weighted Average Cost E
1	Common Equity	\$ 1,557,222,120	47.62%	9.90%	4.72%
2	Long-Term Debt	\$ 1,025,247,618	31.35%	6.43%	2.02%
3	Customer Deposits	\$ 75,901,636	2.32%	4.26%	0.10%
4	Deferred Income Taxes	\$ 447,141,771	13.67%	0.00%	0.00%
5	Post Retirement Liability	\$ 145,588,461	4.45%	0.00%	0.00%
5	Post-1970 ITC	\$ 19,018,925	0.58%	8.52%	0.05%
6	Totals	<u>\$ 3,270,120,531</u>	<u>100.00%</u>		<u>6.88%</u>

Exhibit C
(Comparison of Proposed Rates to Settlement Rates)

Gas Rates - NIPSCO Approved compared to Kokomo & NIFL Filed

		Kokomo Cause #43942	NIFL Cause #43943	NIPSCO Cause #43969
411 - Residential	Customer Charge	\$12.50	\$11.00	\$11.00
	Distribution Charge (per therm)	\$0.16707	\$0.16600	\$0.11282
421 - General Service - Small	Customer Charge	\$30.00	\$30.00	\$30.00
	Distribution Charge	\$0.12844	\$0.09909	\$0.10006
425 - General Service- Large	Customer Charge	\$325.00	\$120.00	\$250.00
	Distribution Charge (per therm)			
	Block 1 - First 6,000 therms	\$0.10999	\$0.08550	\$0.06010
	Block 2 - Next 24,000 therms	\$0.09500	\$0.07750	\$0.05710
	Block 3 - Next 60,000 therms	\$0.09000	\$0.07000	\$0.05010
	Block 4 - All over 90,000 therms	\$0.08000	\$0.06500	\$0.04510
428 - Large Transportation & Balancing	Customer Charge	\$700.00	\$550.00	\$350.00
	Transportation Charge (per therm)			
	Block 1 - First 300,000 therms	\$0.06815	\$0.02870	\$0.02626
	Block 2 - All over 300,000 therms	\$0.05815	\$0.00870	\$0.00826
	Administrative Charge for Balancing			
	Category A	NA	NA	\$1,325.00
	Category B	NA	NA	\$550.00
	Category C	NA	NA	\$1,325.00
438 - General Transportation & Balancing	Customer Charge	\$325.00	\$120.00	\$250.00
	Transportation Charge (per therm)			
	Block 1 - First 6,000 therms	\$0.10999	\$0.08550	\$0.06010
	Block 2 - Next 24,000 therms	\$0.09500	\$0.07750	\$0.05710
	Block 3 - Next 60,000 therms	\$0.08500	\$0.06500	\$0.04550
	Block 4 - All over 90,000 therms	\$0.07500	\$0.06000	\$0.04050
	Administrative Charge for Balancing	NA	NA	\$200.00